



## International Forest Products Limited

# Annual Statutory Information for 2001



### Includes:

- Message To Shareholders
- Management Discussion And Analysis
- Consolidated Financial Statements
- Annual Information Form Dated March 1, 2002
- Environment & Safety Report

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## International Forest Products Limited

### HIGHLIGHTS

	2001	2000	1999
	(in millions of dollars, except share and per share amounts)		
<b>Financial Summary</b>			
Sales	712.5	745.6	661.1
EBITDA	48.6	102.8	99.2
Net earnings (loss) - before restructuring	(5.1)	25.5	16.8
- after restructuring	(24.2)	27.6	(31.3)
<b>Per Share Data</b>			
Net earnings (loss) per common share			
- before restructuring	( 0.15)	0.75	0.48
- after restructuring	( 0.70)	0.81	(0.89)
Price range per share			
\$ High	5.75	5.50	7.00
\$ Low	3.01	3.30	2.85
Book value per share	7.17	8.27	7.11
Cash Flow per share before working Capital Change	0.81	2.99	2.06
Weighted average shares outstanding (millions)	34.6	34.0	35.2
<b>Financial Position</b>			
Total assets	531.2	412.9	460.9
Total debt	104.0	3.9	87.1
Total shareholders' equity	257.0	265.4	250.2
Invested capital	361.0	269.3	337.3
<b>Financial Ratios (%)</b>			
Return on average shareholders' equity	(9.3) %	10.7 %	(11.8)%
Return on assets before taxes and restructuring	(1.2) %	10.9 %	6.1 %
Total debt % invested capital	28.8 %	1.4 %	25.8 %

*"Interfor made significant progress in 2001 towards our goal of positioning the Company to deliver strong financial returns for our shareholders."*

*"As a major producer of high-value cedar and whitewood industrial products, we are particularly hard hit by US softwood lumber duties applied as a percentage of product values."*

*Message to Shareholders – March 2002*

For further highlights, please See Message to Shareholders on the next page.



## MESSAGE TO SHAREHOLDERS

### OVERVIEW

Despite disappointing financial results, Interfor made significant progress in 2001 towards our goal of positioning the Company to deliver strong financial returns for our shareholders. Highlights during the year included:

#### Strategic & Financial

- acquired Primex Forest Products
- reorganized coastal manufacturing and woodlands operations
- invested \$13 million in high-return projects
- maintained strong balance sheet

#### Environmental

- achieved SFI certification for woodlands operations
- achieved Keurhout (European) certification (woodlands)
- achieved ISO 14001 certification at three sawmills
- made progress on environmental market issues

#### Safety

- reduced Medical Incident Rate (MIR) significantly
- ranked in top quartile MIR in woodlands sector
- awarded Canadian Society of Safety Engineers Award for 2<sup>nd</sup> consecutive year (Squamish Lumber)

#### Community and First Nations Activities

- held Annual General Meeting in Campbell River
- signed timber harvesting agreement with Ahousaht First Nation
- signed joint-venture business agreement with Owekeeno First Nation
- established Interfor Scholarship Program for aboriginal and non-aboriginal students

### FINANCIAL PERFORMANCE HAMPERED BY SOFTWOOD DISPUTE AND RESTRUCTURING COSTS

Interfor recorded a net loss of \$5.1 million before one-time items in 2001 compared to earnings of \$25.5 million before one-time items in 2000. The 2001 figures include a provision of \$10.2 million (\$6.5 million after tax) for potential US softwood lumber duties.

Weakness in the Japanese lumber market, higher stumpage rates, significantly lower chip prices and downtime – taken to minimize exposure to potential duty liabilities – had a material impact on Interfor's financial results in 2001.

After one-time items to account for asset write downs and other costs associated with the closure of our Fraser Mills sawmill and the downsizing of our woodlands operations, Interfor recorded a net loss of \$24.2 million or \$0.70 per share in 2001 compared to net earnings of \$27.6 million or \$0.81 per share in 2000.

EBITDA in 2001 was \$48.6 million compared to \$102.8 million in 2000.

For additional information on the Company's financial performance we encourage you to review the HIGHLIGHTS section on page 3 and to read the MANAGEMENT DISCUSSION AND ANALYSIS section beginning on page 9.



## **ACQUISITION OF PRIMEX FOREST PRODUCTS STRENGTHENS STRATEGIC POSITION**

Last May, Interfor acquired Primex Forest Products, one of the most successful independent sawmill operations on the BC Coast. This acquisition, combined with the closure of our sawmill at Fraser Mills, greatly improves the strategic positioning of Interfor's whitewood operations.

Immediately following the transaction, Primex President and CEO George Malpass was appointed Interfor's new Vice-Chairman, and Shaun Sullivan was appointed Vice-President and Director. The addition of George and Shaun significantly strengthens Interfor's senior management group and we look forward to their continuing involvement as we proceed to build a strong and vibrant company.

Subsequent to the purchase of Primex, Interfor acquired the balance of Saltair Timber Products, a lumber processing facility in which Primex previously held a 49% interest.

To acquire 100% of Primex, including the balance of Saltair, Interfor paid a total of \$114.5 million. The transaction was financed through the issuance of 3.78 million Interfor shares, at a fair value of \$16.1 million, plus an additional \$98.4 million which was provided by way of a new term debt facility.

The integration of Interfor and Primex is well underway and is on-track to deliver the benefits envisaged when the acquisition was made.

## **COMPETITIVE POSITIONING ENHANCED BY CAPITAL PROJECTS AND OPERATIONAL RESTRUCTURING**

In 2001, Interfor completed 18 high-return projects for a total cost of \$13 million. These projects included the installation of new dry kilns at Hammond Cedar in Maple Ridge and at the Acorn mill in Delta; sawmill flow modifications at Squamish Lumber; and the installation of a new optimized edger at Adams Lake in the BC Interior. These strategic investments are designed to improve Interfor's competitive position by increasing mill efficiency, productivity and product value. Each of the high-return projects has an expected payback of two years or less.

Total capital spending during the year was \$41.4 million compared to \$52.6 million in 2000.

We will continue to invest in a number of strategic capital projects in 2002 as we pursue our strategy of improving Interfor's competitive position. Recently, we announced a \$5.3 million upgrade at Hammond Cedar and we are looking at projects at other operations.

In addition to the re-investment program, Interfor took steps to re-organize its coastal manufacturing and woodlands operations in 2001. The re-organization began in April, following the Provincial Government's Central Coast land use decision. To adjust, we closed the Fraser Mills sawmill – balancing mill capacity against a reduced log supply -- closed our Bella Coola woodlands office, and combined four logging divisions into two.

During the year, our coastal manufacturing operations were realigned into three distinct business units – Industrial Whitewood, Structural Whitewood and Cedar – to better reflect market opportunities and customer needs.

We intend to pursue further restructuring opportunities in 2002.



## **BALANCE SHEET REMAINS STRONG**

A key focus of our management program continues to be the strength of our balance sheet.

By the beginning of 2001, Interfor's total debt had been reduced to \$3.9 million or 1% of invested capital, which enabled the Primex acquisition to be pursued on favorable terms. Immediately following the acquisition, the company's debt increased to 32% of invested capital. However, by reducing investments in working capital and maintaining control over capital spending, we were able to reduce total debt to \$104 million or 29% of invested capital by year-end.

We continue to have one of the strongest balance sheets in the sector as we enter 2002.

## **WOODLANDS AND MILLS RECEIVE ENVIRONMENTAL CERTIFICATION**

In 2001, Interfor achieved certification for all of its Coastal and Interior woodlands operations under the American Forest and Paper Association's Sustainable Forestry Initiative Program standard (SFI). In addition, we are pleased to report that our sustainable forest management program and chain-of-custody process have been accepted by the Keurhout Foundation for use in the Netherlands.

In Manufacturing, three Interfor sawmills – Hammond Cedar, Squamish Lumber and Adams Lake Lumber -- made significant progress during the year when they achieved ISO 14001 certification in recognition of their environmental practices. The Company's operations are now certified under three environmental programs – ISO, SFI and Keurhout.

During 2001, Interfor also made substantial progress in addressing environmental issues affecting the marketplace. Our support for the completion of the high-profile land use planning process on the Central Coast helped bring a halt to market activity targeting Interfor and other coastal companies.

Interfor's environmental record continues to be excellent and high standards of environmental performance remain a priority. We are pleased that the Company's work in this area is acknowledged through independent environmental certification and continued customer support.

In 2002, we will maintain our leadership role in environmental certification work to meet market demands. Interfor's citizen's advisory board continues to play a key role in our certification activities and our scientific advisors, Dr. Hamish Kimmins and Dr. John Innes, provide valuable assistance in the development of the Company's sustainable forestry program.

## **SAFETY PERFORMANCE CONTINUES TO IMPROVE**

Interfor has made great gains in the area of safety performance over the past four years, reducing the Company's Medical Incident Rate (MIR) by almost 70%.

We are pleased to report that our woodlands group showed dramatic improvement last year, reducing their MIR by 50%. Our Manufacturing group did not meet their overall target, recording an MIR of 7.8. However, excluding the former Primex facilities, the Manufacturing group's MIR would have been just slightly above target at 5.2, which represents an improvement over 2000.

Overall, Interfor achieved a significant reduction in MIR in 2001 and our Squamish Lumber operation was honoured by the Canadian Society of Safety Engineers for its outstanding workplace and community outreach programs. This is the second year in a row that Squamish Lumber has received this national award.

We will continue to pursue our goal of operating accident-free. The target for 2002 is to achieve an overall 20% improvement in MIR.



## **NEW AGREEMENTS BUILD COMMUNITY AND FIRST NATIONS PARTNERSHIPS**

Interfor continued to develop strong connections to its operating communities and First Nations in 2001.

For the second year, the Company held its Annual General Meeting outside Downtown Vancouver in one of our operating communities. Campbell River, the headquarters for our Coastal woodlands operations, hosted the AGM in April. The meeting was attended by community and First Nations leaders, elected officials, several of our key customers and a number of shareholders. Holding the AGM in Interfor's operating communities provides an excellent forum for the exchange of views and ideas and an opportunity for direct community involvement with our business.

At the AGM, we announced the creation of an Interfor Community Scholarship program. Under the program, two scholarships will be awarded to graduating high school students from Interfor's operating areas. One of the scholarships will be directed to Aboriginal students and one to non-Aboriginal students. The program is intended to generate interest in forestry education and to create opportunities for students in smaller rural communities. The first scholarships will be awarded at our Annual General Meeting in April.

Interfor also entered into two important agreements during the year. We signed a timber harvesting agreement with the Ahousaht First Nation on the West Coast of Vancouver Island and we entered into a joint-venture business agreement with the Owekeeno First Nation on the Central Coast. These new relationships represent mutually beneficial business opportunities for Interfor and the communities involved.

In 2002, we will continue to pursue ways to attract more local involvement in the management and use of local resources.

## **EMPLOYEES AND OTHERS CONTRIBUTE TO PROGRESS**

While 2001 was a year of uncertainty and disruption, the people of Interfor responded with commitment and determination. The achievements and progress we made during the year are a direct result of their actions. Interfor has come a long way in the last 3-1/2 years and, while we still have many challenges ahead of us, we would like to thank everyone who has contributed to moving the company forward.

In addition, the support we have received from our operating communities and customers has been outstanding. Without it, our progress and continued operation would not have been possible.

## **MARKET OUTLOOK REMAINS UNCERTAIN; SOFTWOOD DISPUTE CAUSING INSTABILITY**

Housing starts in the United States remain strong despite the tragedy of September 11 and prices for structural products have improved considerably in recent weeks. Similarly, the demand for cedar remains steady and prices continue to be strong. However, we remain concerned with the underlying strength of the US economy and expect lumber prices to drop below current levels later in the year.

Further compounding the uncertainty in the US market is the ongoing dispute over market access.

The latest round in the dispute began on March 31, 2001 when the five-year Softwood Lumber Agreement between Canada and the US expired without replacement measures in place. Since then, the US Commerce Dept. has imposed interim countervailing and anti-dumping duties – in Interfor's case – totaling 32%. We strongly disagree with these interim determinations which are based on groundless US industry allegations.

These unfair and punitive duties add a greater burden to our operating activity and make it very difficult to do business in the US. As a major producer of high-value cedar and whitewood industrial products -- which sell for more than three times the price of structural lumber -- we are particularly hard hit by duties applied as a percentage of product values.



In the absence of a negotiated solution, US trade authorities are expected to deliver their final determinations in the spring of 2002 which, if affirmed, would result in the payment of cash duties on shipments of Canadian products to the US market. Interfor is working actively with other BC and Canadian producers -- along with our provincial and federal governments -- in an attempt to reach a durable solution to this long-standing dispute. In the absence of a negotiated solution, Interfor is fully prepared to pursue resolution of this matter at NAFTA and the WTO.

In Japan, the trend to engineered and kiln-dried products continues and demand is slow. In addition, competition with products from Scandinavia, Europe and other regions is intense and is expected to continue through 2002. These factors, along with the continued instability of the Japanese economy will likely have a negative impact on the Japanese market in 2002.

All-in-all, the short-term market outlook remains uncertain. In the longer term, we expect the markets to remain highly competitive. In our view, companies operating on the BC Coast will need to lower their costs to be price competitive in the years ahead. This is going to require a commitment from all industry stakeholders -- companies, government, labour and contractors.

### **PROVINCIAL GOVERNMENT COMMITS TO POLICY REFORM**

Declining harvest rates, poor economic performance, lack of reinvestment, regressive government forest policy and over-capacity have characterized the BC coastal forest industry for the last decade. Despite these impediments, we have dramatically improved Interfor's strategic and financial position over the last 3-1/2 years.

Since being elected in May, the new Provincial Government has created a sense of optimism through its commitment to policy and regulatory reform. The government has proposed changes to timber pricing; forest tenures; and requirements in areas such as licence transfers, cut control, utilization and appurtenancy. The government feels these changes will lead to market-driven decisions regarding what, how and when to harvest; where to process timber; and what products to produce.

The commitment to change has provided us with a degree of confidence to accelerate re-investment in our operations.

### **INTERFOR WILL CONTINUE TO POSITION FOR SUCCESS**

While there's little doubt policy change will improve the business environment, we intend to move ahead proactively to address the issues that constrain our ability to achieve acceptable levels of profitability.

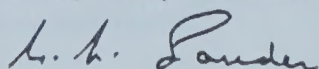
Our business plan for 2002 includes a capital investment program to improve our core facilities. We will also continue to focus on product development and marketing strategies that extract greater value from our timber resources.

Our balance sheet positions Interfor to seek other opportunities -- including acquisitions -- provided they deliver value for the company and our shareholders.

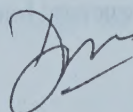
Interfor's commitment to progressive forest management remains unchanged and we will continue to ensure that our practices are both scientifically and ecologically sound.

The work we have done over the last 3-1/2 years has put Interfor in an excellent position to take advantage of opportunities that will be created through change in the BC industry. We are committed to being an industry leader and are confident that our strategies will help to create strong financial returns for our shareholders in the years ahead.

We thank you for your continued support.



William L. Sauder  
Chairman



Duncan K. Davies  
President & C.E.O.

March 6, 2002





## International Forest Products Limited

### MANAGEMENT DISCUSSION AND ANALYSIS

#### REVIEW OF OPERATING RESULTS

Selected Financial Information	2001	2000	1999	1998	1997
	(millions of dollars except per share amounts)				
Sales	712.5	745.6	661.1	597.1	757.1
Operating earnings (loss)	(34.4)	48.2	(46.6)	(88.0)	(0.8)
EBITDA <sup>1</sup>	48.6	102.8	99.2	14.5	75.2
Net earnings (loss) after tax, before restructuring costs and capital asset write-downs	(5.1)	25.5	16.8	(32.0)	0.4
Net earnings (loss)	(24.2)	27.6	(31.3)	(58.7)	0.4
Net earnings (loss) per share	(0.70)	0.81	(0.89)	(1.67)	0.01
Cash flow from operations <sup>1</sup> per share	0.81	2.99	2.06	(0.49)	1.97

1 See Glossary for definition

#### Volume and Price Statistics

Lumber sales (MMfbm)	674	621	551	528	613
Lumber production (MMfbm) <sup>1</sup>	666	632	565	551	620
Log sales (thousand cubic metres)	1,581	1,803	1,992	1,506	1,528
Log production (thousand cubic metres)	2,760	3,407	3,449	2,818	3,237
Log consumption (thousand cubic metres)	2,919	2,729	2,469	2,394	2,797
Average lumber selling price (\$/Mfbm) <sup>2</sup>	\$732	\$795	\$776	\$770	\$878

1 Includes lumber produced on a custom cutting basis for customers who have previously purchased the logs, in most cases from Interfor.

2 \$ Canadian, FOB Vancouver, excluding countervailing duty and antidumping duty.

#### Quarterly Earnings Summary

	2001				2000			
	Quarters				Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(millions of dollars except per share amounts)							
Sales	160.4	183.9	193.1	175.1	188.3	206.1	174.3	176.9
Operating earnings (loss)	(31.7)	0.2	(2.8)	(0.1)	17.8	12.0	6.2	12.1
EBITDA <sup>1</sup>	9.7	15.2	12.5	11.2	26.0	32.2	20.6	24.0
Net earnings (loss) after tax, before restructuring costs and capital asset write-downs	0.3	(0.7)	(2.9)	(1.9)	7.9	6.5	3.5	7.6
Net earnings (loss)	(18.8)	(0.7)	(2.9)	(1.9)	9.6	6.5	3.9	7.6
Net earnings (loss) per share	(0.59)	(0.02)	(0.08)	(0.05)	0.27	0.19	0.11	0.23
Cash flow from operations <sup>1</sup> per share	(0.15)	0.38	0.33	0.22	0.70	0.90	0.59	0.80

1 See Glossary for definition

#### General Overview

Interfor recorded a net loss of \$24.2 million (\$0.70 per share) in 2001 compared to net earnings of \$27.6 million (\$0.81 per share) in 2000. EBITDA was \$48.6 million (2000 - \$102.8 million). Before restructuring costs, capital asset write-downs and recoveries, the net loss for 2001 was \$5.1 million (\$0.15 per share) compared to earnings of \$25.5 million (\$0.75 per share) in 2000. The 2001 results include a provision of \$10.2 million pre-tax or \$0.19 per share after tax to account for the potential application of the preliminary countervailing (19.31%) and antidumping (12.58%) duties imposed by the U.S. Department of Commerce ("USDOC") on the value of shipments of softwood lumber to the U.S. (see "U.S. Softwood Lumber Duty Action" below).



### **Acquisition of Primex Forest Products Ltd.**

On March 29<sup>th</sup> Interfor announced plans to combine with Primex Forest Products Ltd. (Primex), a Canadian forest products company with two sawmills and lumber remanufacturing facilities located in the coastal area of British Columbia ("B.C."). On May 1, 2001 the Company acquired 94.1% of the common shares of Primex bringing its total shareholdings in Primex to 96.0% of the outstanding common shares. On July 16, 2001, the Company acquired the remaining common shares of Primex. In addition, effective June 30, 2001 Primex acquired the remaining 51% of the common shares of Saltair Timber Products Ltd., in which Primex previously held a 49% interest. To acquire 100% of Primex, including the balance of the shares in Saltair, the Company issued 3,783,454 common shares with a fair value of \$16.1 million, and paid an additional \$98.4 million, which was financed through a new term debt facility.

### **Central Coast Land Use Decision**

On April 4<sup>th</sup> the Government of B.C. announced its decision on land use for the Central Coast region of the Province, following more than three years of public consultation. This decision creates a number of new candidate protection areas, defers logging in other areas and commits to an ecosystem-based forest management regime on those areas available for logging. Interfor believes its timber harvesting rights in the area will be affected by these land use decisions and other timber supply factors that will result in Interfor's harvest activity being reduced by an estimated 600,000 m<sup>3</sup> per year, which is approximately 19% of the Company's licence volume on the Coast. The actual reduction in harvesting activity will be determined over the next one to two years as the Provincial Government makes its decisions on the deferred areas and other regulatory measures for the region. To adjust, Interfor announced plans to restructure and downsize its coastal woodlands operations, and to permanently close its Fraser Mills manufacturing facility. As a result, a provision of \$36.6 million pre-tax was taken in the Company's 1<sup>st</sup> quarter accounts to write-down of the carrying value of the assets affected by these decisions and to provide for certain other restructuring costs.

### **U.S. Softwood Lumber Duty Action**

On March 31, 2001 the Softwood Lumber Agreement between Canada and the U.S. expired without replacement measures in place. On April 2, 2001, petitions for the imposition of antidumping and countervailing duties on Softwood Lumber from Canada were filed with the USDOC and the U.S. International Trade Commission ("USITC"), by certain U.S. industry and trade groups (the "Petitioners"). In response to the petitions, the USITC conducted a preliminary injury investigation and on May 16, 2001, determined there was a reasonable indication the lumber industry in the United States was threatened with material injury by reason of softwood lumber imports from Canada.

On August 9, 2001, the USDOC issued its preliminary determination on the countervailing duty and imposed a duty of 19.31% to be posted by cash deposits or bonds on the sales of softwood lumber to the U.S. after August 16, 2001. The USDOC also made a preliminary determination that certain circumstances existed which may result in duties on sales of softwood lumber applying retroactively to May 19, 2001 ("Critical Circumstances"). On October 31, 2001 the USDOC issued its preliminary determination on the antidumping duty and imposed a preliminary duty rate of 12.58% to be posted by cash deposits or bonds on the sales of softwood lumber to the U.S. after November 6, 2001. The USDOC preliminary determination found that Critical Circumstances did not exist for the antidumping duty. On December 15, 2001 the preliminary countervailing duty expired due to a limitation period for application of preliminary duties. The USDOC's investigations on the countervailing and antidumping cases have been aligned and the investigation is continuing. The USDOC's final determination is scheduled to be released on or before March 25, 2002. This will be followed by the USITC's final determination on or before May 12, 2002.

For accounting purposes, the Company has accrued \$10.2 million pre-tax or \$0.19 per share after tax in its financial statements for the period from August 17, 2001 to December 31, 2001. The Company has not accrued any countervailing duty for the period from May 19, 2001 to August 16, 2001 (estimated to be \$11.6 million pre-tax or \$0.21 per share after tax) as management believes that the likelihood of Critical Circumstances is not determinable at this time. Any adjustments to the financial statements resulting from a change in the final countervailing or antidumping duty rates or Critical Circumstances will be made prospectively.



### **Comparison With 2000**

Interfor's sales revenues decreased by 4% in 2001 primarily due to a 8% decrease in lumber unit selling prices and a 17% decrease in log sales volumes resulting from lower harvest levels. Pulp chip revenues fell by 23% compared to 2000, with unit selling prices dropping by 29%. Lumber and chip volumes increased over 2000 due to the Primex acquisition but the higher volumes were not sufficient to offset the declines in product prices. Economic difficulties in Japan and uncertainty in the U.S. market due to the weakened economy, the September 11<sup>th</sup> tragedy and potential duties resulted in lower operating rates in the Company's sawmills.

Production costs increased primarily as a result of the higher volume of lumber production. Unit cash manufacturing costs in the Company's sawmills were up slightly from 2000 levels due to inefficiencies attributable to reduced operating rates. Unit logging costs rose by 12%, of which approximately one-half was attributable to higher stumpage costs. The remainder of the logging cost increase was primarily due to an increased percentage of helilogging and to the impact of spreading fixed costs over a reduced volume harvested.

The increase in selling and administration costs is due to the addition of the Primex operations and the costs associated with the countervailing duty and antidumping duty trade actions.

Depreciation costs increased by \$2.0 million compared to 2000, reflecting the addition of the Primex assets for 8 months offset in part by the closure of Fraser Mills and reduced operating rates in the Company's sawmills. Depletion and amortization decreased by \$7.7 million from 2000 levels due to the lower log harvest.

Interest costs increased during the year due to increased debt levels associated with the Primex acquisition. The Company's average direct borrowing rates were approximately 1% lower than in 2000.

Restructuring costs in 2001 of \$36.6 million were incurred primarily for capital asset write-downs on the Fraser Mills sawmill and write-downs of other plant and equipment and logging roads whose carrying values were not considered to be recoverable due to the Central Coast land use decision referred to above. The total also included severance and other costs of closing offices and reducing operations. Restructuring costs and capital asset write-downs (recoveries) was reduced by a one-time \$4.8 million rebate from the Workers' Compensation Board of B.C. Included in 2000 were recoveries of \$2.8 million on the sale of the Company's Flavelle sawmill and \$0.8 million from a settlement reached with the Government of B.C. on a cancelled land transfer agreement.

### **CASH FLOWS**

Cash generated from operations, before working capital changes, was \$28.0 million for the year. Reductions in working capital generated a further \$33.5 million for a net cash generation from operations of \$61.5 million for the year.

The acquisition of Primex was financed through the issuance of 3,783,454 class A subordinate voting shares for net proceeds (after issuance expenses) of \$15.8 million and by a new \$100.0 million term debt facility.

Interfor's normal course issuer bid to purchase up to 10% of the Company's issued and outstanding class A shares through the facilities of the Toronto Stock Exchange was renewed February 16, 2001. The Company did not acquire any shares in 2001.

Net cash applied to capital assets and investments totaled \$156.2 million. The acquisition of Primex was \$114.5 million of this total and included capital assets of \$111.3 million and working capital of \$34.0 million offset in part by \$30.8 million of non-current liabilities. The Company expended \$19.9 million to construct roads and \$21.6 million to improve plant and equipment.

The Company decreased expenditures on roads in conjunction with decreased log production volume related to the low product prices and uncertainties in the U.S. and Canadian markets. Approximately 60% of the expenditures on plant and equipment were attributed to projects which are expected to have paybacks of less than two years and the balance was used to maintain the efficiency of the Company's operations.



## FINANCIAL POSITION

Summary of Financial Position	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions of dollars)				
Current assets	181.2	147.8	167.2	181.2	294.0
Current liabilities	<u>117.3</u>	<u>103.6</u>	<u>96.3</u>	<u>87.1</u>	<u>162.6</u>
Working capital	<u>63.9</u>	<u>44.2</u>	<u>70.9</u>	<u>94.1</u>	<u>131.4</u>
Total assets	<u>531.2</u>	<u>412.9</u>	<u>460.9</u>	<u>560.0</u>	<u>711.5</u>
Operating debt	2.1	3.9	0.0	0.0	79.1
Long-term debt	<u>101.9</u>	<u>0.0</u>	<u>87.1</u>	<u>160.4</u>	<u>156.8</u>
Total debt	104.0	3.9	87.1	160.4	235.9
Shareholders' equity	<u>257.0</u>	<u>265.4</u>	<u>250.2</u>	<u>281.5</u>	<u>340.3</u>
Invested capital	<u>361.0</u>	<u>269.3</u>	<u>337.3</u>	<u>441.9</u>	<u>576.2</u>

## Ratio and Investment Information

Current ratio	1.5	1.4	1.7	2.1	1.8
Total debt as a percentage of invested capital	28.8%	1.4%	25.8%	36.3%	40.9%
Return on average shareholders' equity <sup>1</sup>	(9.3)%	10.7%	(11.8%)	(18.9%)	0.1%
Return on average invested capital <sup>1</sup>	(6.6)%	9.7%	(6.8%)	(10.2%)	1.0%
Pre-tax return on total assets <sup>1</sup>	(7.1)%	11.7%	(11.1%)	(17.3%)	(0.3%)
Cash flow from operations <sup>1</sup> as a percentage of total debt	26.9%	2,603.2%	83.1%	(10.6%)	29.3%
Equity per share	\$7.17	\$8.27	\$7.11	\$8.00	\$9.67
Weighted average shares outstanding (millions)	34.6	34.0	35.2	35.2	35.2

<sup>1</sup> See Glossary for definition

## Re-investment

	(millions of dollars)				
Cash flow from operations <sup>1</sup>	28.0	101.6	72.4	(17.0)	69.2
Cash generated from (used in) operating working capital	33.5	19.5	24.8	130.3	36.1
Capital expenditures and acquisitions	(155.9)	(52.6)	(31.4)	(38.7)	(86.3)

<sup>1</sup> See Glossary for definition

## Current Assets

Accounts receivable levels are similar to 2000 despite the significant reductions in product prices. This reflects higher volumes of lumber sales due to the addition of the Primex operations.

Lumber inventory volumes were higher than 2000 year end levels, also reflecting the addition of the Primex sawmill operations in 2000. Lumber inventory carrying values declined by 7%, due to market value declines for many of the Company's products and a reduced proportion of high value cedar lumber inventory. Log inventories increased due to a 14% increase in log volumes related to the Primex acquisition. Unit carrying values for logs were similar to 2000.

## Current Liabilities

The Company's has available operating lines of credit of \$60.0 million. The Company had current bank borrowings of \$1.6 million at the end of 2001 plus \$0.5 million representing the Company's proportionate share of the operating debt of an investee company.



The Company's working capital ratio was 1.5 to 1, compared to 1.4 to 1 at December 31, 2000. Accounts payable were higher due to the acquisition of Primex and due to the accrual of countervailing and antidumping duties in 2001. Presently the Company is posting bonds rather than paying cash to cover the potential duty liability.

### **Capital Assets**

The net book value of the Company's capital assets increased by \$82.1 million in 2001. The acquisition of Primex included \$88.9 million of property, plant and equipment and \$22.4 million of goodwill. Capital assets were reduced by write-downs of \$21.9 million related to the closure of Fraser Mills and rationalization of logging operations necessitated by the Central Coast land use decision referred to above. Other investments in capital assets during the year were approximately \$7.3 million less than charges for depreciation, amortization and depletion.

### **Long Term Liabilities**

The Company's total long-term debt was increased to \$101.9 million in 2001, up from \$nil in 2000. Interfor amended its term debt facilities with its bankers to provide for a new \$100.0 million term line for the Primex acquisition. The additional \$1.9 million of long-term debt represents Interfor's proportionate share of the term debt of an investee company. In addition, the Company had an unutilized term bank facility of \$65.0 million at year end. Total debt as a percentage of invested capital increased to 28.8% from 1.4% in 2000.

Other long-term liabilities increased due to the recording of a future income tax liability related to the acquisition of Primex.

## **RISKS AND UNCERTAINTIES**

### **Supply / Demand Relationships**

Markets for the Company's products are affected by such factors as economic growth, interest rates, construction activity, and log and chip supply / demand relationships. The Company maintains a policy of market and product diversification to enable it to shift its production into strengthening markets and to manufacture more value-added products.

Based on 2001 levels of operations, a \$10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	- \$10 change per mfbm	\$4.3 million
Chips	- \$10 change per volumetric unit	\$2.9 million

### **Currency Exchange Sensitivity**

Interfor ordinarily sells approximately three-quarters of its lumber into export markets. The Company enters into foreign exchange contracts to effectively hedge its offshore sales. In respect of sales to the United States the Company identifies opportunities from time to time to enter into currency contracts on a portion of its future U.S. dollar receipts. At year-end the Company had outstanding obligations to sell a maximum of U.S.\$50 million at an average rate of CDN\$1.59 per U.S.\$1.00 and ¥40 million at an average rate of ¥74.7 per CDN\$1.00, using a combination of forward and option contracts.

Based on 2001 sales revenue, the sensitivity of Interfor's net earnings to a one per cent change in the value of the Canadian dollar relative to the currencies of the Company's two largest export markets is as follows:

Japanese Yen	\$1.2 million
U.S. Dollar	\$1.2 million

### **Cost of Debt Financing**

As at December 31, 2001 Interfor had drawn a total of \$100 million of floating rate debt under its term and operating credit facilities.



### **U.S. Softwood Lumber Action**

The final amount and effective date of countervailing and/or antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S., (which could be retroactive to May 19, 2001), cannot be determined at this time and will depend on determinations yet to be made by the USDOC and USITC and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the preliminary countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the preliminary rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until the administrative review process is complete.

### **Proposed Forest Policy Changes in British Columbia**

The new government in B.C. campaigned on a platform of change. The platform included changes to forest policy in the province. In connection with the Canada – U.S. softwood lumber trade discussions the Government of B.C. has unveiled a number of potential forest policy changes intended to form a component of an overall settlement of the dispute. The proposed policy changes include changes to timber pricing; forest tenures; and requirements in areas such as licence transfers, cut control, utilization and appurtenancy. The Government of B.C. believes that the proposed changes would lead to market driven decisions pertaining to what, how and when to harvest; where to process timber; and what products to produce. The Government also believes that the measures substantively address the U.S. lumber industry's concerns and will result in a more competitive B.C. industry.

The softwood lumber trade discussions between the Government of Canada, the provincial governments and the U.S. Government are continuing. Although the Government of B.C. has indicated the specific proposals tabled as part of these discussions are conditional on achieving final agreement on the framework of a settlement, the Company believes that regardless of the outcome of the softwood lumber trade dispute certain changes will be made in the areas referred to above.

### **Timber Supply Reviews**

Interfor's allowable annual cut (AAC) from Forest Licence and Tree Farm Licence tenures is determined through the Ministry of Forest's Timber Supply Review (TSR) process. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes, and environmental and social considerations. The TSR regularly assesses information pertaining to each timber supply unit every five years to re-determine its AAC. There were no changes to Interfor's AAC in 2001.

The AAC can be affected by factors that can exert both positive and a negative impact on timber supply. Some overall reductions to Interfor's AAC are expected in subsequent years as a result of new park additions and harvesting regulations that further constrain access to timber.

### **Land Use Decisions and Treaty Settlements**

Interfor operates on public forest lands in B.C., which are subject to Provincial Government decisions on land use and treaty settlements. Government land use planning processes for several coast regions of B.C. will continue through 2002 and beyond. The treaty settlement process is ongoing and various settlement offers may be forthcoming in the years ahead. The loss of harvesting rights due to both land use decisions and treaty settlements would be subject to the compensation provisions contained within Provincial legislation.

### **Stumpage Fees**

Stumpage is the fee the B.C. Government charges companies to harvest timber from Crown Land. The amount of stumpage paid for each cubic metre of wood harvested is currently based on a target rate set by government.

Stumpage payments for a harvesting area are managed to take into consideration specific operating conditions, timber quality and administrative procedures. Periodic changes in the Provincial Government's administrative policy can affect stumpage costs and the viability of individual logging operations.

Interfor believes that changes to the stumpage system are necessary to create fairness and equity in government's pricing of timber. The current stumpage system does not recognize the changes in operating costs associated with changes in government regulations. Amending the stumpage system is complex and involves lumber trade issues between Canada and the U.S. The complexity of the stumpage system and the potential for change precludes the ability to predict future stumpage rates. A proposal to amend the stumpage system has been made by the B.C. government as part of the softwood lumber discussions with the Americans. A new system is expected to be in place sometime in 2002.

### **Environment**

Interfor has certified all of its forest operations to meet world class environmental standards. The company's leadership in environmentally responsible work is designed to address the growing public and consumer preference for quality wood products from well managed forests.

Ongoing company monitoring and independent assessments verify environmental performance and lead to continual improvement. In future, as changes to streamline government regulations are considered, there may be opportunities to use certification as a results-based method to measure environmental performance.

A concern over the use of wood from old growth forests in B.C. has been raised in the marketplace by certain groups seeking to preserve these forests. In response to market based needs, Interfor has worked proactively to provide factual information about sustainable forestry that will help our customers make environmentally responsible purchasing decisions. The company believes in promoting the use of its wood products as a good choice for the environment.

### **OUTLOOK FOR 2002**

No significant change in demand is anticipated in Interfor's principal markets during the first half of 2002. At some point, low interest rates are expected to stimulate growth and recovery in North America and Europe. Demand for cedar lumber products in the United States and Europe is steady with supply somewhat constrained. Whitewood lumber demand in Japan is expected to remain at current levels, however reduced supply from B.C. coastal lumber producers enabled modest price recoveries in late 2001. The recent weakness of the Japanese Yen, if maintained, is likely to put pressure on product pricing in 2002. Chip prices are expected to remain near current levels in 2002. Improvements in chip prices are dependent on a recovery of pulp markets as Interfor's chip prices are tied to pulp prices by formula.

Despite uncertain market conditions, Interfor expects to maintain relatively high sawmill operating rates throughout 2002. However, the Company will adjust operating rates as necessary to keep lumber inventories at prudent levels and to maximize cash earnings. Potential U.S. duty exposure will have a significant influence on the Company's plans.

Woodlands will operate on a reduced basis during the first half of 2002 or until anticipated stumpage policy changes are implemented. Reduced regulatory burden is expected to provide a positive impact late in 2002. Other forest policy changes referred to above under "Proposed Forest Policy Changes in British Columbia" have the potential to enable B.C. coastal operators to address issues such as a declining harvest rate, poor economic performance and lack of reinvestment which have undermined the industry's competitive position in recent years.

Despite a difficult operating environment Interfor has dramatically improved its financial position over the last four years. The purchase of Primex was an important step in the process of rationalizing and enhancing Interfor's asset base to improve the Company's long-term financial prospects. Interfor will continue to pursue strategies to reduce costs and improve operating efficiencies in order to generate acceptable returns on invested capital.





## International Forest Products Limited

### CONSOLIDATED FINANCIAL STATEMENTS

#### MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

A handwritten signature in dark ink, appearing to read "D.K. Davies".

D.K. Davies

President and Chief Executive Officer

A handwritten signature in dark ink, appearing to read "L.D. Cocke".

L.D. Cocke

Corporate Controller

January 16, 2002





## International Forest Products Limited

### CONSOLIDATED FINANCIAL STATEMENTS

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.

Chartered Accountants

KPMG LLP

Vancouver, Canada

January 16, 2002



## INTERNATIONAL FOREST PRODUCTS LIMITED

Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
	(thousands of dollars)	
Assets		
Current assets:		
Accounts receivable	\$ 25,649	\$ 25,495
Income taxes receivable	4,686	—
Inventories (note 3)	127,034	107,128
Prepaid expenses	5,623	6,445
Future income taxes (note 9)	18,192	8,737
	181,184	147,805
Investments and other assets:		
Investments and advances (note 4)	27,255	24,617
Deferred financing fee, net of accumulated amortization	554	461
	27,809	25,078
Capital assets:		
Property, plant and equipment (note 5)	444,543	337,930
Less accumulated depreciation	240,518	206,583
	204,025	131,347
Timber and logging roads, net of accumulated depletion and amortization	96,705	108,691
Goodwill, net of accumulated amortization	21,442	—
	322,172	240,038
	\$ 531,165	\$ 412,921
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 2,134	\$ 3,904
Accounts payable and accrued liabilities	114,788	99,316
Income taxes payable	—	341
Principal due within one year on long-term debt (note 6)	370	—
	117,292	103,561
Reforestation liability, net of current portion	20,467	21,438
Long-term debt (note 6)	101,531	—
Other long-term liabilities	12,954	13,444
Future income taxes (note 9)	21,886	9,106
Shareholders' equity:		
Share capital (note 7):		
Issued and fully paid:		
Class A subordinate voting shares	220,577	204,497
Class B common shares	4,080	4,080
	224,657	208,577
Contributed surplus	8,043	8,043
Retained earnings	24,335	48,752
	257,035	265,372
Commitments and contingencies (note 10)		
	\$ 531,165	\$ 412,921

See accompanying notes to consolidated financial statements.

On behalf of the Board:



W.L. Sauder, Director



J.A. Milroy, Director

## INTERNATIONAL FOREST PRODUCTS LIMITED

Consolidated Statements of Operations  
Years ended December 31, 2001 and 2000

	2001	2000
	(thousands of dollars)	
Sales (notes 1(i) and 10(b))	\$ 712,506	\$ 745,617
Costs and expenses:		
Production	650,112	631,024
Selling and administration	15,791	15,129
Depreciation	20,463	18,426
Depletion and amortization	28,723	36,438
Restructuring costs and capital asset write-downs (recoveries) (note 8)	31,776	(3,561)
	746,865	697,456
Operating earnings (loss)	(34,359)	48,161
Interest expense on long-term debt	(4,141)	(1,674)
Other interest expense	(1,434)	(1,287)
Other income	177	790
B.C. Corporation capital tax	(872)	(945)
Equity in earnings of investee companies	2,652	3,467
	(3,618)	351
Earnings (loss) before income taxes	(37,977)	48,512
Income taxes (recovery) (note 9):		
Current	686	900
Future	(14,426)	20,000
	(13,740)	20,900
Net earnings (loss)	\$ (24,237)	\$ 27,612
Net earnings (loss) per share (note 11)	\$ (0.70)	\$ 0.81

Consolidated Statements of Retained Earnings  
Years ended December 31, 2001 and 2000

	2001	2000
	(thousands of dollars)	
Retained earnings, beginning of year	\$ 48,752	\$ 21,140
Share issue expenses, net of future income taxes	(180)	—
Net earnings (loss)	(24,237)	27,612
Retained earnings, end of year	\$ 24,335	\$ 48,752

See accompanying notes to consolidated financial statements.



## INTERNATIONAL FOREST PRODUCTS LIMITED

Consolidated Statements of Cash Flows  
Years ended December 31, 2001 and 2000

	2001	2000
	(thousands of dollars)	
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ (24,237)	\$ 27,612
Items not involving cash:		
Depreciation, depletion and amortization	49,186	54,864
Future income taxes	(14,426)	20,000
Reforestation liability	(971)	4,471
Other long-term liabilities	(490)	1,751
Equity in earnings of investee companies	(2,652)	(3,467)
Write-down of capital assets	21,895	—
Other	(286)	(3,602)
	28,019	101,629
Cash generated from (used in) operating working capital:		
Accounts receivable	14,666	7,321
Income taxes	(974)	465
Inventories	18,746	8,279
Prepaid expenses	2,137	(832)
Accounts payable and accrued liabilities	(1,054)	4,286
	61,540	121,148
Investing activities:		
Acquisitions (note 2)	(114,469)	—
Additions to property, plant and equipment	(21,575)	(22,379)
Logging roads and timber	(19,866)	(30,253)
Disposal of capital assets	575	21,508
Investments and other assets	(838)	2,718
	(156,173)	(28,406)
Financing activities:		
Issue (repurchase) of capital stock, net of expenses	15,780	(12,409)
Increase (decrease) in long-term debt	86,958	(87,083)
Increase (decrease) in bank indebtedness	(8,105)	3,904
	94,633	(95,588)
Increase (decrease) in cash	—	(2,846)
Cash and cash equivalents, beginning of year	—	2,846
Cash and cash equivalents, end of year	\$ —	\$ —
Supplemental disclosures:		
Cash interest paid	\$ 5,575	\$ 2,961
Cash income taxes paid	686	900

See accompanying notes to consolidated financial statements.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

### 1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries Primex Forest Products Ltd., Saltair Timber Products Ltd., Primex Fibre Ltd., Helifor Industries Limited, Interfor Japan Ltd., 372624 B.C. Ltd. and Westminster Wood Products Ltd., its interest in the Field Sawmills Limited Partnership and its 49% interest in the accounts of Mapri Developments Ltd.

(b) Inventories:

Inventories have been valued at the lower of cost and net realizable value.

(c) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Other investments are accounted for on the cost basis.

(d) Capital assets:

Property, plant and equipment and timber and logging roads are recorded at cost. Depreciation on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 20%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years.

Goodwill is recorded at the lower of net book value and net recoverable amount and is amortized over the estimated period of benefit, determined to be 15 years. Any impairment in value is recorded in earnings when it is identified based on management's estimate of undiscounted future cash flows from the related operations.

(e) Reforestation liability:

The British Columbia Forest Act requires the Company to incur the cost of reforestation on its forest and timber licences. Accordingly, the Company records the estimated cost of reforestation as the timber is cut. These costs are included in the cost of current production.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of reforestation, road deactivation and environmental obligations, recoverability of assets and rates for depreciation, depletion and amortization. Actual results could differ from those estimates.

(g) Share-based compensation plans:

The Company has an employee share option plan for its key employees and directors, which is described in note 7. No compensation expense is recognized for this plan when shares or share options are issued to employees. Any consideration paid by employees on exercise of share purchase options or purchase of shares is credited to share capital.

(h) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.



# INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

## 1. Significant accounting policies (continued):

### (i) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded net of discounts and countervailing and antidumping duties (note 10(b)).

### (j) Accounting policy change

Effective January 1, 2001, the Company adopted the Canadian Institute of Chartered Accounts ("CICA") revised handbook section 3500 on earnings per share. This revised standard is mandatory for fiscal years beginning on or after January 1, 2001, and has been given retroactive application. All comparative financial statements have been restated to reflect this change in policy.

Under this new standard, the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effect of options issued. The adoption of the revised standard did not result in any changes to previously reported amounts for basic and diluted earnings per share.

## 2. Acquisitions:

On May 1, 2001 the Company acquired 94.1% of the common shares of Primex Forest Products Ltd. ("Primex") bringing its total shareholdings in Primex to 96.0% of the outstanding common shares. On July 16, 2001, the Company acquired the remaining common shares of Primex. In addition, effective June 30, 2001 Primex acquired the remaining 51% of the common shares of Saltair Timber Products Ltd., in which Primex previously held a 49% interest. To acquire 100% of Primex, including the balance of the shares in Saltair, the Company issued 3,783,454 common shares with a fair value of \$16,080,000, and paid an additional \$98,389,000, which was financed through a new term debt facility.

These acquisitions have been accounted for using the purchase method with the purchase price allocated as follows:

	(thousands of dollars)	
Net assets acquired:		
Current assets	\$	59,568
Property, plant and equipment		88,924
Goodwill		22,378
		170,870
Liabilities assumed:		
Current liabilities		25,581
Long term debt		12,224
Future income taxes		18,596
		56,401
	\$	114,469
Consideration:		
Common shares	\$	16,080
Cash		98,389
	\$	114,469

## 3. Inventories:

	2001	2000
	(thousands of dollars)	
Logs	\$ 91,905	\$ 79,689
Lumber	28,108	25,297
Other	7,021	2,142
	\$ 127,034	\$ 107,128

# INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

## 4. Investments and advances:

	2001	2000
	(thousands of dollars)	
Seaboard Shipping Company Limited	\$ 24,450	\$ 23,853
Other	2,805	764
	\$ 27,255	\$ 24,617

During the year, the Company recorded \$2,652,000 (2000 - \$3,467,000) in equity earnings and received \$1,638,000 (2000 - \$2,725,000) in cash distributions from investee companies.

## 5. Property, plant and equipment:

2001	Cost	Accumulated depreciation	Net book value
	(thousands of dollars)		
Land	\$ 30,531	\$ —	\$ 30,531
Buildings	88,164	47,365	40,799
Machinery and equipment	270,950	156,076	114,874
Automotive equipment	18,182	13,284	4,898
Other	36,716	23,793	12,923
	\$ 444,543	\$ 240,518	\$ 204,025

2000	Cost	Accumulated depreciation	Net book value
	(thousands of dollars)		
Land	\$ 25,253	\$ —	\$ 25,253
Buildings	63,978	37,784	26,194
Machinery and equipment	196,404	133,003	63,401
Automotive equipment	16,090	13,281	2,809
Other	36,205	22,515	13,690
	\$ 337,930	\$ 206,583	\$ 131,347

## 6. Bank indebtedness and long-term debt:

### (a) Bank indebtedness:

The Company has available operating lines of credit totalling \$60,000,000 (2000 - \$60,000,000), of which \$57,900,000 (2000 - \$56,100,000) was unused at December 31, 2001. The loan bears interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The lines of credit are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.



## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

## 6. Bank indebtedness and long-term debt (continued):

## (b) Long-term debt:

	2001	2000
	(thousands of dollars)	
Bank term loans	\$ 100,000	\$ —
Other	1,901	—
	101,901	—
Less principal included in current liabilities	370	—
	\$ 101,531	\$ —

The Company has available a revolving term line of credit (the "Revolving Line") totaling \$65,000,000 (2000 - \$90,000,000), of which \$65,000,000 (2000 - \$90,000,000) was unused at the year end. In addition, a new term line of credit was established in 2001 (the "Acquisition Line") totaling \$100,000,000 (2000 - \$nil), which was fully drawn at the year end. The term loans bear interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The Revolving Line matures on April 29, 2004, with a provision for extension available. The Acquisition Line matures on April 30, 2004.

Minimum principal amounts due on long-term debt within the next five years are follows:

2002	\$ 370,000
2003	330,000
2004	100,756,000
2005	255,000
2006	190,000

## 7. Share capital:

Authorized capital at December 31, 2001 and 2000 consists of:

- 100,000,000 Class A subordinate voting shares without par value
- 1,700,000 Class B common shares without par value
- 5,000,000 preference shares without par value

Share transactions during 2001 and 2000 were as follows:

	Number			Amount
	Class A	Class B	Total	
Balance at December 31, 1999	34,173,262	1,015,779	35,189,041	\$ 229,029,350
Share repurchases	(3,107,000)	—	(3,107,000)	(20,452,126)
Balance at December 31, 2000	31,066,262	1,015,779	32,082,041	\$ 208,577,224
Share issuances	3,783,454	—	3,783,454	16,079,680
Balance at December 31, 2001	34,849,716	1,015,779	35,865,495	\$ 224,656,904

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements  
Years ended December 31, 2001 and 2000

**7. Share capital (continued):**

On February 16, 2000, the Company commenced a normal course issuer bid to acquire up to 3,294,369 Class A shares (representing approximately 9.64% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding shares being purchased in any 30 day period. During 2000 the Company acquired 3,107,000 Class A at a total cost of \$12,408,713 and the shares were cancelled as purchased. The excess of the assigned value of the shares over the cost totaled \$8,043,413 and has been credited to contributed surplus in the year ended December 31, 2000. The program was renewed on February 16, 2001 to acquire up to 2,964,700 Class A shares (representing approximately 9.54% of the outstanding Class A shares). The Company did not acquire any shares in 2001. The program terminates on February 15, 2002.

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2001 are exercisable at prices ranging from \$3.65 to \$10.35 per share, the closing market price for the shares on the dates that the options were granted. The options expire at various dates between July 22, 2002 and April 30, 2011.

Details of the Company's share option plan for the years ended December 31, 2001 and 2000 are as follows:

	2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,846,200	\$ 5.43	1,415,700	\$ 5.83
Granted	967,600	3.98	569,400	4.85
Exercised	—	—	—	—
Expired or cancelled	(70,000)	7.25	(138,900)	7.07
Outstanding, end of year	2,743,800	\$ 4.87	1,846,200	\$ 5.43
Options exercisable at year end	648,280	\$ 6.13	337,660	\$ 7.53

Details of options outstanding under the share option plan at December 31, 2001 are as follows:

Range of Exercise Prices	Number Outstanding At Dec. 31/01	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Option Life (yrs)	Weighted Average Exercise Price	Number Exercisable At Dec. 31/01	Weighted Average Exercise Price
\$3.65-\$5.00	2,508,900	8.2	\$ 4.50	428,000	\$ 4.75
\$8.63-\$10.35	234,900	2.3	8.82	220,280	8.80
	2,743,800		\$ 4.87	648,280	\$ 6.13

At December 31, 2001, Class A shares are reserved for possible future issuance as follows:

- (a) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and
- (b) 2,940,100 Class A shares are reserved for possible issuance pursuant to the share option plan.



# INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

## 8. Restructuring costs and capital asset write-downs (recoveries):

On April 4, 2001, the Provincial Government announced its land use decision in the Central Coast of British Columbia, with the establishment of a large number of new protected areas, and the deferral of logging in other areas. The combined effect of this decision is the creation of a large portion of land on the Central Coast where timber harvesting is not allowed, which results in a loss of operating areas and reductions of timber supply. As a result of the land use plan, the Company made the decision to permanently close its Fraser Mills sawmill in October, 2001, and to rationalize its logging operations by reducing the number of logging camps and disposing of excess machinery and equipment.

Accordingly, the Company has recorded \$21,895,000 in capital asset write-downs and \$14,730,000 in severance and other related restructuring costs. The Company is also looking to the Provincial Government to provide fair compensation and mitigation resulting from the impacts of this land use decision. As such, the Company has not provided for any write-down of timber in the affected areas, as the amount, if any, is not yet determinable.

The Company also received a rebate of Workers' Compensation Board insurance premiums paid in previous years totaling \$4,849,000, resulting from a restructuring of the Workers' Compensation Board insurance program.

The Company recorded restructuring costs and capital asset write-downs (recoveries) consisting of the following:

	2001	2000
	(thousands of dollars)	
Capital asset write-downs (recoveries)	\$ 21,895	\$ (2,812)
Severance and other restructuring costs	14,730	—
Other (recoveries)	(4,849)	(749)
	\$ 31,776	\$ (3,561)

As at December 31, 2001, \$9,700,000 in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The company expects to pay this amount in 2002 in accordance with its restructuring plan.

## 9. Income taxes:

Future income taxes are determined as follows:

	2001	2000
	(thousands of dollars)	
Future income tax assets:		
Losses carried forward	\$ 10,827	\$ 11,484
Restructuring and other reserves	27,660	22,472
Other	3,070	1,016
	41,557	34,972
Valuation allowance	—	—
	41,557	34,972
Future income tax liabilities:		
Capital assets	(45,251)	(35,341)
	\$ (3,694)	\$ (369)
Current future income tax assets	\$ 18,192	\$ 8,737
Non-current future income tax liabilities	(21,886)	(9,106)
	\$ (3,694)	\$ (369)

**INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

**9. Income taxes (continued):**

The Company's effective income tax rate is determined as follows:

	2001	2000
Basic federal and provincial tax rate	44.5%	45.6%
Manufacturing and processing allowance	(5.2)	(4.9)
Large corporations tax	(1.7)	0.6
Other	(3.3)	4.7
	34.3%	46.0%

The Company's provision for income taxes (recovery) is determined as follows:

	2001	2000
	(thousands of dollars)	
Earnings (loss) before income taxes	\$ (37,977)	\$ 48,512
Equity in earnings of investee companies	(2,652)	(3,467)
Non-deductible expenses and other	514	397
Accounting earnings (loss)	\$ (40,115)	\$ 45,442
Income taxes (recovery) at 34.3% (2000 - 46.0%)	\$ (13,740)	\$ 20,900

**10. Commitments and contingencies:**

(a) Operating leases:

The Company is obligated under various operating leases requiring minimum annual rental payments in each of the next five years as follows:

2002	\$ 8,577,000
2003	2,448,000
2004	1,913,000
2005	1,340,000
2006	662,000

(b) Contingent liability

On April 2, 2001, petitions for the imposition of antidumping and countervailing duties on Softwood Lumber from Canada were filed with the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC"), by certain U.S. industry and trade groups (the "Petitioners").

In response to the petitions, the USITC conducted a preliminary injury investigation and on May 16, 2001, they determined that there was a reasonable indication that the lumber industry in the United States was threatened with material injury by reason of softwood lumber imports from Canada.



**INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Consolidated Financial Statements  
Years ended December 31, 2001 and 2000

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**10. Commitments and contingencies (continued):****(b) Contingent liability (continued)**

On August 9, 2001, the USDOC issued its preliminary determination in the countervailing duty investigation and imposed a preliminary duty rate of 19.31% to be posted by cash deposits or bonds on the value of exports of softwood lumber to the U.S. after August 16, 2001. The USDOC also made a preliminary determination that certain circumstances may have existed which may result in duties on exports of softwood lumber applying retroactively to May 19, 2001 ("Critical Circumstances"). The preliminary duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with U.S. law.

On October 31, 2001, the USDOC issued its preliminary determination in the antidumping duty investigation and imposed a company specific preliminary duty rate on each of the six companies reviewed ranging from 5.94% to 19.24%. All other companies including Interfor received the weighted average rate of the six companies reviewed of 12.58%. The antidumping duty rate will apply to all shipments of softwood lumber made to the U.S. after November 5, 2001.

The final amount and effective date of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on determinations yet to be made by the USDOC and USITC and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

For accounting purposes, the Company has accrued \$8,867,000 or \$0.16 per share for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the USDOC of 19.31%. The Company has not accrued any duty for the period from May 19, 2001 to August 16, 2001 (estimated to be \$11,598,000 or \$0.21 per share) as management believes that the likelihood of Critical Circumstances in the countervailing case is not determinable at this time. The Company has accrued \$1,359,000 or \$0.03 per share for the period from November 6, 2001 to December 31, 2001 representing the preliminary antidumping duty rate determined by the USDOC of 12.58%. Any adjustments resulting from a change in the final countervailing and antidumping duty rates or Critical Circumstances determination in the countervailing duty case will be made prospectively.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the preliminary countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the preliminary rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete.

**(c) Other contingencies:**

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

# INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Consolidated Financial Statements  
Years ended December 31, 2001 and 2000

## 11. Net earnings (loss) per share:

Earnings (loss) per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2001	2000
Net income (loss) (thousands)	\$ (24,237)	\$ 27,612
Weighted average common shares outstanding (thousands)	34,589	34,033
Earnings (loss) per share, basic and diluted	\$ (0.70)	\$ 0.81

## 12. Pension plans:

The Company contributes to a defined contribution retirement plan for its salaried employees on a current service basis.

The Company also contributes to pension plans for most of its hourly employees under the terms of various agreements. The Company's obligation to the pension plans for hourly employees is limited to the contribution rate specified in those agreements.

The Company is current on all required contributions under these plans.

## 13. Related party transactions:

Lumber sales to an affiliate of a significant shareholder amounted to \$3,414,000 (2000 - \$3,357,000). These transactions were conducted on a normal commercial basis, including terms and prices.

## 14. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. All operations are located in British Columbia, Canada.

The Company sells to both foreign and domestic markets as follows:

	2001	2000
	(thousands of dollars)	
Canada	\$ 292,465	\$ 337,674
United States	184,241	182,104
Japan	191,147	162,269
Other export	44,653	63,570
	\$ 712,506	\$ 745,617

Sales by product line are as follows:

	2001	2000
	(thousands of dollars)	
Lumber	\$ 512,101	\$ 517,689
Logs	135,836	168,532
Wood chips and other by-products	30,160	39,477
Other	34,409	19,919
	\$ 712,506	\$ 745,617



**INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Consolidated Financial Statements  
Years ended December 31, 2001 and 2000

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**15. Financial instruments:****(a) Fair value of financial instruments:**

The fair value of the Company's long-term debt at December 31, 2001, including the portion due within one year, approximates its carrying value of \$101,901,000 as the majority of the long-term debt bears interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

**(b) Derivative financial instruments:**

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at December 31, 2001, the Company has outstanding obligations to sell a maximum of US\$50,000,000 at an average rate of CDN\$1.59 and Japanese ¥40,000,000 at an average rate of ¥74.4 to the CDN\$ during 2001. Based on the exchange rates at December 31, 2001, there was no significant unrealized gain or loss with respect to these hedging arrangements.

There were no interest rate swaps outstanding as at December 31, 2001.

**(c) Sale of receivables:**

During 2000, the Company entered into a replacement agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At December 31, 2001, the Company received cash proceeds of \$25,000,000 (2000 - \$25,000,000) from the sale.



## **International Forest Products Limited**

### **ANNUAL INFORMATION FORM**

**Dated as of March 1, 2002**

#### **DESCRIPTION OF THE BUSINESS**

International Forest Products Limited is one of western Canada's largest logging and sawmilling companies producing a diversified range of quality wood products for sale to world markets. It harvests timber and manufactures and markets lumber products, logs, and wood chips. The Company has 37 logging operations and six sawmills in the southern coastal region of British Columbia and has one logging operation and one sawmill in the central interior region.

The Company was continued under the Company Act (British Columbia) by amalgamation on December 1, 1979 with its subsidiary, Whonnock Forest Products Limited. Its principal office as well as its registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company" or "Interfor" means International Forest Products Limited and its predecessors and all its subsidiaries. The five major subsidiaries, Primex Forest Products Ltd., Saltair Timber Products Ltd., Helifor Industries Limited, Westminster Wood Products Ltd. and Interfor Japan Ltd., whose operations are described below, are wholly-owned and controlled by Interfor and incorporated under the laws of British Columbia. Interfor, through its subsidiaries, also owns a 100% interest in the Field Limited Partnership and a 49% interest in B.W. Creative Wood Industries Ltd, a company engaged in secondary manufacturing of wood products.

#### **HISTORY**

Interfor's business originated in the 1930s with a sawmill in Whonnock, about 48 kilometers east of Vancouver. The mill utilized timber from logging operations in nearby forest areas. Since that time, the Company has made significant investments to expand and upgrade its production facilities and timber base and increase annual lumber capacity through the acquisition of companies with manufacturing plants and timber resources.

In 1971, the Company expanded geographically from the coastal region to the central interior of British Columbia by acquiring Holding Lumber Company Limited which owned and operated a sawmill in the central interior of British Columbia at Adams Lake near Kamloops. In 1976, Interfor acquired the Pacific Pine Division of Triangle Pacific Forest Products Ltd. in New Westminster.

In 1977, Sauder Industries Limited acquired a controlling interest in the Company (since transferred to Mountclair Investment Corporation, a Sauder family holding company). During the following two years Interfor acquired further sawmills and timber rights by the purchase of McDonald Cedar Products Ltd. and Bay Forest Products Ltd.

In November, 1980, to increase future log supply and to diversify into pulp, Interfor participated equally with two other forest companies in organizing Western Forest Products Limited ("WFP") which acquired the British Columbia timber and manufacturing facilities of ITT Industries of Canada Limited. During 1981, Interfor commenced leasing the Silvertree mill from WFP and purchased the sawmilling assets of Imp-Pac Lumber Ltd., which are now operated as MacKenzie Seizai.

In December 1983, the Company was required to close the Bay Forest Products sawmill to allow for development of the Expo '86 site in Vancouver. In March 1984, Interfor acquired from CIPA Industries Ltd. a sawmill (since renamed the Bay Lumber sawmill) at Pitt Meadows, 30 kilometres east of Vancouver. In the same transaction, Interfor acquired three coastal logging operations and related timber holdings.



During the period 1986 through 1989, Interfor implemented a \$120 million capital expenditure program. This program was designed to lower manufacturing costs and to better utilize the supply of small logs from its timber base. It included the construction of a Linck system at Western Whitewood and significant modifications to the Bay Lumber sawmill and the McDonald Cedar sawmill.

In 1988, the Company changed its name from Whonnock Industries Limited to International Forest Products Limited and adopted the trademark "INTERFOR". The new name identified the business of the Company and better reflected the international scope of its markets.

In 1989, the Company disposed of its interest in WFP, including its leasehold interest in the Silvertree sawmill.

In December, 1991, Interfor acquired from Fletcher Challenge Canada Limited and Crown Forest Industries Limited substantial timber tenures and cutting rights, a sawmill and a planer mill at Coquitlam, British Columbia and a cedar sawmill and planer mills at Maple Ridge, British Columbia together with 20 logging operations.

In December, 1992, Interfor closed the Pioneer Lumber sawmill as a result of a reduction to the Company's annual cutting rights.

In February, 1995, Interfor acquired from Weldwood of Canada Limited timber tenures and related logging operations representing approximately 976,000 cubic metres of annual cutting rights, a sawmill and planer mill at Squamish, British Columbia and a cedar sawmill and planer mills at Port Moody, British Columbia.

During 1996, the large log cedar sawmill acquired from Weldwood was replaced with a small log cedar sawmill and the Bay Lumber Sawmill was permanently closed.

During October 1997, the McDonald Cedar Sawmill was closed. A Western Red Cedar value-added plant was constructed on the site during 1998.

In June 1998, the Company began a restructuring program which included aggressive cost cutting measures through simplifying and streamlining the Company's logging and sawmilling operations and administrative procedures. It also involved rationalizing the Company's production capacity to correspond with its timber supply and markets. As a result, the Flavelle sawmill was sold and several other mills experienced changes in the roles they were assigned including the products they produced.

In May 2001, the Company acquired 96% of the shares of Primex Forest Products Ltd. through a public offering and in July acquired the remaining outstanding shares. The operations of Primex include two efficient sawmills, two remanufacturing facilities and a 49% interest in a secondary manufacturing company. In October 2001, the sawmill operations of Fraser Mills were permanently closed but the remanufacturing facilities continued to process lumber for other Interfor sawmills.

Interfor's expansion since 1970 has increased its annual lumber production capacity from approximately 65 million board feet to approximately 775 million board feet and increased its average annual timber harvest from approximately 300,000 cubic metres to over 3.4 million cubic metres.

## **TIMBER AND LOGGING**

### **Timber Supply**

The Province of British Columbia owns 95% of all timber lands in the Province and regulates forestry operations on these lands under the Forest Act and the Forest Practices Code. The Forest Act empowers the Minister of Forests to grant timber tenures including Forest Licences, Tree Farm Licences, and Timber Licences.

A Forest Licence grants the right to cut a specific volume of timber on public lands in a managed forest area called a Timber Supply Area. A Forest Licence has a term not exceeding 20 years (usually 15 years) and is renewable every five years for a 15 year term subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests.

A Tree Farm Licence is granted to a licensee that undertakes to manage an area of timber land to yield an annual harvest on a sustainable basis. A Tree Farm Licence is granted for a term of 25 years and is renewable every five years for those whose term commenced after July 1, 1993 and for ten years for those whose term commenced before July 1, 1993 for a further 25 year term subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests.

A Timber Licence grants the licensee the right to cut merchantable timber from a prescribed area of Crown Land over a specified term and is not renewable but may be extended by the Minister of Forests. The term of each Timber Licence was negotiated between the Ministry of Forests and the licensee and was designed to allow sufficient time for the orderly harvesting of the merchantable timber on the Timber Licence. The Ministry has allowed extensions to the terms of existing Timber Licences because harvest rates necessary to meet the original targets are sometimes considered to be environmentally undesirable.

Under Tree Farm Licences and Forest Licences an allowable annual cut ("AAC") is determined by the Ministry of Forests. The cut in any one year may vary up to 50% above or below the AAC, as long as the average annual cut over a five-year period is within 10% of the specified AAC for that period.

The Forest Act requires, with limited exceptions, that the British Columbia Minister of Forests' prior written consent be obtained for a change in control of a company that holds a Crown granted forest tenure. If the Minister determines that there has been a failure to obtain the Minister's prior written consent to a change of control, the Minister may cancel the forest tenures. Subject to limited exceptions, if the Minister gives his consent to a change of control, the AAC for replaceable Forest Licences and Tree Farm Licences is reduced by five percent and, in the case of Timber Licences, a payment equal to five percent of the current appraised value of the timber must be paid to the Crown. Control of a corporation means the ability to elect 50% or more of the directors or otherwise effectively control the operations of the corporation.

In the coastal region, Interfor holds four Tree Farm Licences and ten renewable Forest Licences in eight Timber Supply Areas authorizing it to harvest 3,095,000 cubic metres of Crown timber each year. Additionally, Interfor holds the cutting rights on coastal Timber Licences on which it intends to cut approximately 65,000 cubic metres of timber in 2002. Since the annual volume from these tenures is unregulated, it provides the Company with the flexibility to schedule its harvesting based on log markets, thus allowing the maximization of its value.

In the interior region, Interfor holds one renewable Forest Licence authorizing it to harvest 250,000 cubic metres of Crown timber each year. In addition, Interfor holds one Timber Licence under which it intends to cut approximately 15,000 cubic metres of logs per year for the next five years.

The log requirements of Interfor's coastal mills are met using logs harvested from its timber tenures, by long term trade and purchase agreements, and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the required minimum proportion of logs purchased on the open market is approximately 40% of coastal log consumption.

Interfor's cutting rights in the interior region provide approximately 45% of its interior mill requirements. Additional mill requirements are purchased from private landowners, Small Business Licencees and other forest products companies.

Interfor's long-term coastal timber supply consists of a species mix of approximately 58% hemlock-balsam, 26% western red cedar, 9% Douglas fir, 3% spruce, and 4% cypress. Over the next 25 years, a majority of its logs harvested in the coastal region will be harvested from old growth timber stands from which premium grades of lumber can be produced.

In the interior, Interfor's long-term timber supply consists of a species mix of approximately 5% hemlock, 12% western red cedar, 33% Douglas fir, and 50% SPF (spruce- pine-fir).



The following tables show Interfor's AAC under its Forest and Tree Farm Licences and other cutting rights and the volume of timber harvested under Interfor's Forest and Timber Licences and other cutting rights in each region for the periods specified. They also show the volume of purchases, sales, and consumption during that period.

	Years ended December 31					
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(thousands of cubic metres)					
<b>Annual Allowable Cut (1)</b>						
— Forest Licences	2,782	2,782	2,811	2,845	2,845	2,815
— Tree Farm Licences	563	666	666	666	666	666
— Discretionary Annual Harvest Levels (2)	<u>80</u>	<u>187</u>	<u>180</u>	<u>180</u>	<u>180</u>	<u>200</u>
	<b><u>3,425</u></b>	<b><u>3,635</u></b>	<b><u>3,657</u></b>	<b><u>3,691</u></b>	<b><u>3,691</u></b>	<b><u>3,681</u></b>
<b>Actual Cut</b>						
Coast						
— Forest Licences		1,996	2,404	2,289	1,999	2,135
— Tree Farm Licences		474	538	611	360	506
— Timber Licences & other cutting rights (2)		<u>34</u>	<u>192</u>	<u>307</u>	<u>105</u>	<u>282</u>
		<b><u>2,504</u></b>	<b><u>3,134</u></b>	<b><u>3,207</u></b>	<b><u>2,464</u></b>	<b><u>2,923</u></b>
Interior						
— Forest Licence		229	252	231	276	276
— Timber Licences (2)		<u>27</u>	<u>21</u>	<u>11</u>	<u>78</u>	<u>38</u>
		<b><u>256</u></b>	<b><u>273</u></b>	<b><u>242</u></b>	<b><u>354</u></b>	<b><u>314</u></b>
Total Actual Cut		<b><u>2,760</u></b>	<b><u>3,407</u></b>	<b><u>3,449</u></b>	<b><u>2,818</u></b>	<b><u>3,237</u></b>
Purchases		<u>1,893</u>	<u>1,093</u>	<u>950</u>	<u>586</u>	<u>1,160</u>
		<b><u>4,653</u></b>	<b><u>4,500</u></b>	<b><u>4,399</u></b>	<b><u>3,404</u></b>	<b><u>4,397</u></b>
Log Utilization						
— Consumption		2,919	2,729	2,469	2,394	2,797
— Logs Chipped		17	20	31	58	43
— Sales		<u>1,581</u>	<u>1,803</u>	<u>1,992</u>	<u>1,506</u>	<u>1,528</u>
Total		<b><u>4,517</u></b>	<b><u>4,552</u></b>	<b><u>4,492</u></b>	<b><u>3,958</u></b>	<b><u>4,368</u></b>

(1) AAC includes a provision for non-recoverable fibre.

(2) Volumes not included in Annual Allowable Cut.

### Stumpage

A stumpage charge is assessed by the British Columbia Government on all Crown timber harvested. The amount of stumpage paid on Forest License and Tree Farm License tenures is based on a target rate set by the Government and adjusted on a periodic basis. Individual stumpage rates are calculated for each cutting permit taking into consideration various factors such as species, site and operating costs.

On those lands held under Timber Licences, a fixed royalty was payable when the timber was harvested. Effective April 1, 1995 the method of calculating royalties was changed from a fixed fee to an amount equal to a percentage of the stumpage fee that would have been charged if the tenure had been a Forest Licence. The percentage increased annually on a straight-line basis until it reached 100% on April 1, 2001.

Stumpage and royalty payments in relation to profitability is shown below for the periods specified.

	Years ended December 31				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(thousands of dollars)				
Earnings (loss) before stumpage and income taxes	\$(5,223)	\$77,465	\$(15,378)	\$(49,072)	\$67,165
Stumpage and royalty payments	<u>32,754</u>	<u>28,953</u>	<u>35,857</u>	<u>47,575</u>	<u>69,236</u>
Earnings (loss) before income taxes	(37,977)	48,512	(51,235)	(96,647)	(2,071)
Income tax provision (recovery)	<u>(13,740)</u>	<u>20,900</u>	<u>(19,900)</u>	<u>(37,900)</u>	<u>(2,500)</u>
Net earnings (loss)	<b><u>\$(24,237)</u></b>	<b><u>\$27,612</u></b>	<b><u>\$(31,335)</u></b>	<b><u>\$(58,747)</u></b>	<b><u>\$429</u></b>

## **Forest Management**

Interfor is responsible for managing forest resources under license in accordance with the requirements of all governmental laws and regulations. The Company operates in compliance with the Forest Practices Code (implemented in 1995) which is a comprehensive set of government legislation that governs all facets of forestry activities.

The sustainable management of forestry resources within the Company's tenures is guided by a team of qualified staff including Registered Professional Foresters and technicians. Interfor's personnel are engaged in activities such as resource planning and development, harvesting, reforestation, forest protection, and certification.

Interfor recognizes that it must constantly develop new and innovative ways of conducting forestry to meet the changing expectations of society. The Company has developed an Environment Management System to govern and continually improve the sustainable management of its forest resources.

## **Allowable Annual Cut**

The harvest rate on crown land is regulated by Government with an Allowable Annual Cut (AAC) set by the provincial Chief Forester. The Ministry of Forests conducts Timber Supply Reviews on a continuing basis to determine harvest levels for each Timber Supply Area and Tree Farm Licence. Various factors can influence either an increase or decrease in the AAC.

Timber Supply Reviews prior to 2001 have resulted in a cumulative loss of over 700,000 cubic metres of AAC, since 1991. This reduction in volume represents the annual consumption of two medium-sized sawmills. There were no reductions to the Company's AAC during 2001 resulting from Timber Supply Reviews, but the AAC of one of the Company's Tree Farm Licences was temporarily reduced by 103,000 cubic metres to formally acknowledge the volume unavailable to the Company because of a longstanding access dispute with the local Indian Band. In 2002, it is expected that Government land use decisions made in 2001 and other Timber Supply Reviews in progress will result in a reduction of the Company's AAC.

## **Logging Operations**

Interfor and its logging contractors employ approximately 1,700 people in 37 logging operations, each operating in one or more locations in the coastal region of British Columbia. Its coastal operations extend from Hope, 165 kilometres east of Vancouver, to Prince Rupert, 850 kilometres northwest of Vancouver. Approximately 50% of the logs harvested under Interfor's annual cutting rights are produced by Company-operated conventional and helicopter logging camps and the balance is produced by independent contractors operating under Interfor's direction.

Interfor's coastal logging operations are grouped into five decentralized business units. These separate business units are able to relate more effectively with the specific requirements of the various geographic regions as well as the needs of the surrounding communities including aboriginal groups.

During the past 20 years, Interfor has made important contributions to the development of helicopter logging techniques to harvest trees from locations that are otherwise economically or environmentally inaccessible. Heli-logging can eliminate the need for extensive road building and reduce the ground disturbance in sensitive areas. In 2001, heli-logging by Interfor's subsidiary, Helifor Industries Limited accounted for approximately one-third of the harvest from Interfor's coastal operations. Helifor also provides contract-logging services to other forest products companies and heavy lift services to other resource companies.

In order to maximize the value of the log supply in its coastal operations, the Company directs its logs to the most suitable sawmill on the basis of size, species, and quality. This is accomplished by towing logs in booms or on specially designed self-loading and self-dumping barges. Interfor buys, sells, or trades logs to more closely match its mills' requirements.

Interfor's harvesting includes the production of pulp logs, which are generally those logs unsuitable for lumber manufacturing. The Company arranges sales of pulp logs in addition to sales of wood chips manufactured by its sawmills to pulp producers in exchange for sawlogs.



In the central interior region of British Columbia, Interfor's logging operation is located in the vicinity of Adams Lake near the Company's interior sawmill approximately 80 kilometres north-east of Kamloops. Logging operations in the interior are supervised by Company personnel but are conducted entirely through logging contractors employing approximately 100 people.

During the past five years, Interfor has spent a total of \$170 million on roads, bridges, log sorting areas, logging equipment, and timber purchases. These expenditures were made principally in the coastal region to access timber and improve timber harvesting efficiency and flexibility.

### Log Sales

In order to obtain the appropriate species, size, and grade of log to best suit market conditions and a particular mill's cutting capability, the Company must sell logs that are in excess of or unsuitable for its manufacturing requirements. The value of log sales for the past five years is shown in the sales table under "Sales and Marketing".

## MANUFACTURING

Interfor operates four manufacturing business units consisting of seven sawmills and six remanufacturing facilities. These business units are each headed by a Vice President or senior manager who interfaces with and is guided by corporate policies and guidelines, particularly with respect to log allocation, marketing and sales activities and corporate culture.

Interfor produces a wide range of products from specialty products through to commodity structural lumber. The mills are capable of cutting logs ranging in diameter from 4 inches to 84 inches. Many of the Company's manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In 2001, Interfor expanded and strengthened its manufacturing base through the acquisition of Primex Forest Products Ltd. This acquisition added two modern coastal sawmills and two remanufacturing operations which, together with Western Whitewood, form the basis of Interfor's Structural Whitewood Group.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

<u>Sawmills</u>	<u>Normal Number of Shifts</u>	<u>Present Rated Capacity (1)</u>	<u>Years ended December 31</u>				
			<u>2001</u>	<u>2000</u> (MMfbm)	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Cedar</b>							
Hammond Cedar	2	160	134	146	139	123	133
Squamish Lumber (2)	2	100	72	89	32	25	51
<b>Structural Whitewood</b>							
Acorn (3)	3	165	103	—	—	—	—
Field (3)	2	100	56	—	—	—	—
Western Whitewood	1	85	73	83	102	83	126
<b>Industrial Whitewood</b>							
MacKenzie Seizai (4)	1	35	37	34	35	36	41
<b>Interior</b>							
Adams Lake Lumber	2	130	133	137	131	107	100
<b>Sawmills Sold or Closed</b>							
Fraser Mills (5)		—	58	143	126	130	105
Flavelle Cedar (6)		—	—	—	—	47	34
McDonald Cedar (7)		—	—	—	—	—	30
<b>Total</b>		<u>775</u>	<u>666</u>	<u>632</u>	<u>565</u>	<u>551</u>	<u>620</u>

(1) Based on the normal number of shifts per day and 250 operating days.

(2) The sawmill was temporarily closed in June 1998. It resumed operations on one shift in July 1999 and two shifts in October 1999.

(3) Acorn and Field were acquired as part of the acquisition of Primex Forest Products Ltd. on May 1, 2001.

(4) Volumes include custom-cutting. See "MacKenzie Seizai".

(5) The sawmill was permanently closed October 2001. The planer and dry kilns remain in operation. See "Remanufacturing".

(6) The sawmill was temporarily closed in September 1998 and sold in January 2000.

(7) The sawmill was permanently closed in 1997 and a value-added plant was constructed on the site during 1998. See "Remanufacturing".

## **Cedar Group**

### ***Hammond Cedar***

Hammond is a western red cedar manufacturing facility located on the Fraser River at Maple Ridge, British Columbia. The facility consists of a three-line sawmill, dry kilns, and two planermills. The mill had been completely rebuilt by the previous owner prior to its acquisition in 1991. During 1998 and 2001, five new dry kilns were constructed at a total cost of \$8 million. Included in the Hammond business are the McDonald and Albion value added centres, which provide additional remanufacturing for a portion of Hammond's siding and panel product mix. The Company directs the majority of Hammond's production to North American markets.

### ***Squamish Lumber***

The Squamish mill consists of a sawmill and a planer mill located in Squamish, British Columbia at the head of Howe Sound, approximately 75 kilometres north of Vancouver. The mill was acquired by Interfor in 1995. In June 1998, operations were curtailed for 13 months because of difficult market conditions. The mill reopened in July 1999 after operating efficiencies were made which resulted from a cooperative process involving the employees, the Community of Squamish and the Provincial Government. During 2001, the Company invested in new optimization systems and in modifications to streamline mill flow. The capital additions improved cost effectiveness on Douglas fir products for Japan while allowing for a shift in primary business focus to the production of western red cedar products for North American markets.

## **Structural Whitewood Group**

### ***Acorn Forest Products***

The Acorn operation is located on leased land in Delta, British Columbia. The facility consists of a log dewatering and merchandising system, a sawmill, a planer mill and dry-kilns. The sawmill was completely rebuilt in 1989 and has undergone a number of capital improvements since that time. In 2001, capital projects totaling \$13.5 million were completed upgrading the mill's log processing, lumber sorting and optimized trimming capability. To better meet customer needs, the Company also constructed, at a cost of \$4.5 million, four dry-kilns which utilize advanced vacuum-drying technology. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas fir logs.

### ***Field Sawmills Limited Partnership***

The Field operation is a sawmill located on Vancouver Island in Courtenay, British Columbia. In 2001, a \$13.8 million capital program was completed to add a log processing facility and an automated lumber sorting system to the sawmill. Additional processing is performed at the Saltair remanufacturing facility located in Chemainus, British Columbia. The mill uses hemlock and Douglas fir logs to produce structural lumber, primarily for the Japanese traditional housing market.

### ***Western Whitewood***

Western Whitewood is located on the north arm of the Fraser River in New Westminster, British Columbia. It is a high capacity small-log sawmill designed to manufacture lumber to offshore specifications. In 1994 construction was completed on dry kilns and reprocessing facilities enabling the Company to manufacture more kiln dried value-added products. In 1996 a third kiln was added providing drying capacity for 60% of the mill's production.



## **Industrial Whitewood Operations**

### ***MacKenzie Seizai***

Located on the south bank of the Fraser River in Surrey, British Columbia, the MacKenzie operation consists of a log yard and a single line headrig sawmill. The log yard merchandizes large high grade and appearance grade logs in hemlock, balsam, Douglas fir and Sitka spruce. Logs from the log yard are sorted for specified end uses and customers. Logs surplus to current mill lumber programs are either sold to customers who custom cut the logs at MacKenzie or are sold through the local log market. More than 75% of the lumber produced in 2001 was sold into the North American market, primarily in Canada. The majority of lumber products produced at Mackenzie are targeted for further manufacturing into specialty end uses such as doors, windows, moldings and architectural framing. Reductions in available timber, including the grades and sizes suitable for this mill, have resulted in a one-shift operation since February 1997. As a result, the volume of production was reduced, but the quality and value of production has increased.

## **Interior Operations**

### ***Adams Lake Lumber***

Adams Lake Lumber is Interfor's interior sawmill and is located on Adams Lake near Kamloops, British Columbia. Similar to other interior mill operations, the mill manufactures kiln-dried lumber for the United States and Canadian construction markets as well as for offshore markets. Adams Lake Lumber has the capability to cut Douglas fir as well as spruce-pine-fir, western red cedar, and hemlock. In 2000, the Company completed a \$4.5 million upgrade to improve the range of products that could be offered to its customers. The upgrade included the ability to produce machine stress rated products, increase the capacity and quality of kiln-drying and other projects which improved product optimization and reduced costs. In 2001, the Company completed a \$2.7 million project to install an optimized edger.

## **REMANUFACTURING**

Most of Interfor's sawmills have some capability to process lumber beyond the primary stage. In order to add further value to the Company's lumber products, Interfor has been increasing its involvement in remanufacturing in three ways:

- By selling rough lumber to independent remanufacturers.
- By custom remanufacturing lumber in facilities owned by independent remanufacturers.
- By expanding its own remanufacturing capabilities through recent additions including Primex's Specialty Products Division and Saltair Timber Products Ltd. and the formation of the Fraser Reman facility.

### **Cedar Remanufacturing Group**

#### ***McDonald Reman***

McDonald Reman is located on the Fraser River at Fort Langley, British Columbia. The Company operated a sawmill on the site until October 1997 when it was permanently closed. During 1998, a chop line and a finger-joint plant which employs state of the art technology to recover clear fibre was constructed on the site at a cost of \$4.7 million. The plant continued to use certain buildings, dry kilns, planer equipment and other infrastructure remaining on the site. The new plant started up in the third quarter of 1998 and currently has an annual capacity of 19 million board feet of finger-jointed blanks for cedar siding trim, fascia products, and cutstock for export markets.

#### ***Albion Process Centre***

The Albion facility operates on leased lands located 7 kilometres from Hammond. The plant processes high value finished siding and decking products. The facilities include a moulder, a resaw, five chop-saws and sorting equipment to process 12 million board feet of kiln-dried products per year.

## **Structural Whitewood Remanufacturing**

### ***Fraser Reman***

The Fraser Mills sawmill, located on the north bank of the Fraser River at Coquitlam, British Columbia, was permanently closed in October 2001. In 2001, the Fraser Reman operation was established on the site and the construction of five new steam kilns was completed at a cost of \$4.9 million. These kilns together with the existing kilns and the planer mill continue to operate and process lumber for Interfor's other primary mills as well as contracting to process lumber for external customers.

### ***Saltair Timber Products Ltd.***

Saltair Timber Products is located in Chemainus, British Columbia. Its facilities include dry kilns, re-sawing and other processing equipment for adding value to the lumber produced at Field Sawmills. The plant has an annual capacity of 21 million board feet of kiln dried lumber. Primex previously owned 49% of Saltair but increased its ownership to 100% in June 2001.

### ***Specialty Products Division***

Specialty Products is located on leased land in Delta, British Columbia. Its facilities include dry kilns and lumber remanufacturing equipment enabling it to process 15 million board feet of kiln-dried lumber per year. Nearly all of the lumber processed at Specialty Products is produced by other Interfor sawmills located nearby in the greater Vancouver area.

### ***Westminster Wood Products Ltd.***

Westminster Wood Products is located on leased land near MacKenzie Seizai in Surrey, British Columbia. Its facilities include dry kilns, and resawing, sorting and planing equipment to process approximately 26 million board feet of kiln-dried lumber per year. Most of the material handled is clear and other high-grade lumber from Interfor sawmills. The plant did not operate in the second half of 2001.

## **SALES AND MARKETING**

The difficult terrain, higher road and other capital costs and higher stumpage charges result in higher log costs for coastal mills compared to interior mills. In addition, the facilities of coastal mills are primarily directed to the handling of logs which result in higher sawmilling costs. However, British Columbia coastal softwood timber is characterized by large, high quality logs in a variety of species which yield a higher percentage of clear and appearance grade lumber than do interior logs. The prices obtained for the premium grades of coast lumber compensate in part for higher logging and sawmilling costs. On average, coastal mills have average selling prices of more than \$300 per thousand board feet higher than interior mills. Accordingly, a continuing priority for Interfor is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value added items. As part of this initiative, Interfor has increased its kiln drying capacity in the interior region to 90% of its lumber production and to 35% in the coastal region.

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodelling market in North America has become almost as large a lumber consumer as new housing and has lessened the impact of fluctuations in new housing starts. In order to further lessen the impact of rapid cyclical changes in any one market, Interfor maintains the policy of worldwide market and product diversification. Each of the mills has a particular customer and product base in various countries which provides Interfor with a diversified sales profile resulting in less dependency upon United States markets than most other major Canadian producers.

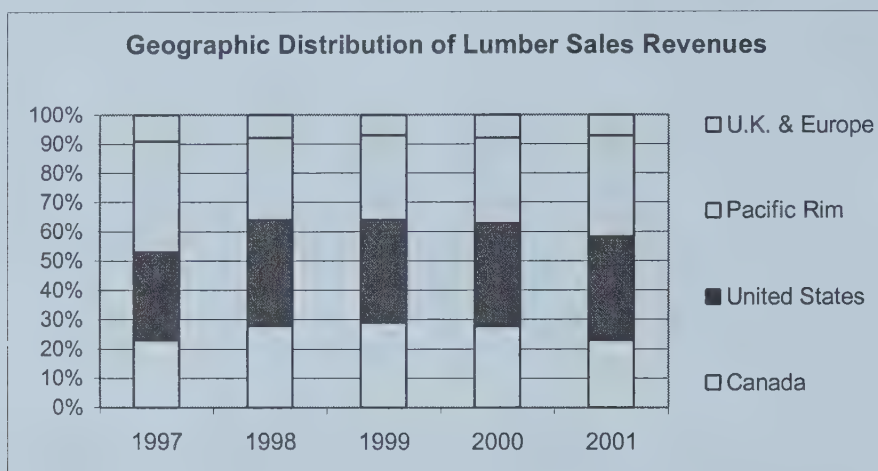
Lumber Sales and Marketing activities are combined into Western Red Cedar, Structural Whitewood, Industrial (appearance grade) Whitewood and Interior Groups. Interfor's Tokyo office, Interfor Japan Ltd., has developed niche markets and has increased sales directly to end users. While the major market for Interfor's cedar lumber continues to be North America, gains have been made in diversifying into offshore markets in Europe, Japan and Australia.



The following table shows Interfor's lumber sales by geographic area and total sales by product line for the past five years:

	<b>Years ended December 31</b>				
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>	<b><u>1997</u></b>
	(thousands of dollars)				
Lumber					
— Domestic	\$112,712	\$137,333	\$122,583	\$110,837	\$121,783
— U.S.A	171,913	173,556	147,105	143,018	155,817
— Other export	<u>207,398</u>	<u>186,276</u>	<u>158,802</u>	<u>152,897</u>	<u>260,880</u>
	492,023	497,165	428,490	406,752	538,480
Offshore transportation and handling	20,078	20,524	17,648	18,719	28,867
Logs	135,836	168,532	168,693	130,807	148,179
Wood chips and other by-products	30,160	39,363	24,214	22,729	26,779
Contract services and other	<u>34,409</u>	<u>20,033</u>	<u>22,015</u>	<u>18,087</u>	<u>14,787</u>
Total sales	<b><u>\$712,506</u></b>	<b><u>\$745,617</u></b>	<b><u>\$661,060</u></b>	<b><u>\$597,094</u></b>	<b><u>\$757,092</u></b>

The following graph shows the percentage of Interfor's lumber sales revenue to its major markets in the past five years.



#### **Wood Chip and Sawmill Residuals Sales**

At normal capacity Interfor produces approximately 650,000 volumetric units of wood chips per year in its sawmill operations. In 2001, operating the sawmills below capacity reduced chip shipments to approximately 510,000 volumetric units for the year. Essentially all of the Company's wood chips are sold under contracts to pulp producers in B.C. with terms varying from 1 to 25 years, with some contracts perpetually renewable by the pulp producer. Most of Interfor's wood chips are sold at prices related to current Northern Bleached Softwood Kraft (NBSK) pulp prices, while the balance is sold at current prices.

Interfor supplies chips and sawmill residuals as well as pulp logs to the previous owners of the Hammond and Fraser Mills operations under one of its long-term agreements. The agreement provides for specified target volumes as well as minimum and maximum volumes of pulp fibre to be supplied by Interfor. These volumes are adjustable as Interfor's harvest level changes in the future. Pulp logs and sawmill residuals are sold at market prices, while wood chips are sold at a formula price tied to NBSK pulp prices.

## **CAPITAL EXPENDITURES**

The Company made capital expenditures, including acquisitions, on sawmill and logging operations and timber holdings as shown in the following table:

	<u>2001</u>	<u>Years ended December 31,</u>		<u>1998</u>	<u>1997</u>
		<u>2000</u>	<u>1999</u>		
		(thousands of dollars)			
<b>Acquisitions</b>					
Land, buildings, equipment					
— Manufacturing	\$88,924	—	—	—	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	—	\$ 12,304
	<u>\$88,924</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 12,304</u>
<b>Other capital expenditures</b>					
Land, buildings, equipment					
— Manufacturing	\$21,562	\$15,041	\$4,493	\$9,454	\$22,066
— Forestry and logging	13	7,338	2,147	2,543	10,587
Logging roads and timber	<u>19,866</u>	<u>30,253</u>	<u>24,792</u>	<u>26,733</u>	<u>45,025</u>
	<u>41,441</u>	<u>52,632</u>	<u>31,432</u>	<u>38,730</u>	<u>77,678</u>
Total	<u>\$130,365</u>	<u>\$52,632</u>	<u>\$31,432</u>	<u>\$38,730</u>	<u>\$ 89,982</u>

The capital expenditures of the Company during the five years ended December 31, 2001 were financed through internally generated funds and through the Company's bank lines.

## **HUMAN RESOURCES**

Interfor employs on average approximately 3,400 people including approximately 1,000 people through logging contractors operating under its direction. Interfor is a member of Forest Industrial Relations, an association which represents most of the forestry companies in coastal British Columbia in their negotiations with the IWA-Canada ("IWA"). The IWA is the certified bargaining agent for approximately 2,300 people engaged in Interfor's logging and manufacturing operations in the coastal region. The current labour agreement with the IWA will expire June 14, 2003.

During 2001, there were no shifts lost due to labour disputes in Interfor's sawmill operations. On average over the previous five years, approximately one percent of the total planned shifts of Interfor's sawmill operations were lost due to labour disputes.

## **THE ENVIRONMENT**

In late 1994 an Environment Committee of the Board of Directors was formed and in early 1995 an Environmental Policy was approved by the Board. During 1999 the role of the Environment Committee was re-evaluated and reaffirmed with respect to the environment. At that time, the Committee also assumed additional responsibility for health and safety issues. A new Environment Policy was approved by the Board on July 21, 1999 as follows:

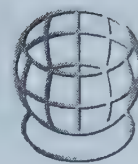
### **Environment Policy**

International Forest Products Limited is committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.



Upon the formation of the Environment Committee in 1994 the Board directed the management of the Company to implement an environmental compliance program and to ensure that there are regular, documented reports to verify its effectiveness.



### **Forestry and Logging**

The Environment Management System for Coast Forestry and Logging was updated in 1999 to achieve registration to the International Organization for Standardization Environment Management System Standard (ISO 14001: 1996) for a period of three years, expiring on December 5, 2002. The Company's Interior forest operations obtained ISO 14001 registration in 2000.



During 2001, Interfor's forestlands became independently certified by the Sustainable Forestry Initiative (SFI<sup>SM</sup>) of the American Forest and Paper Association. The SFI program is a rigorous system of environmental and conservation practices that covers a wide range of forestry, wildlife, water quality, and biodiversity values. Interfor was the first Company operating on public land in British Columbia to achieve third party verification of this work.



Interfor was the recipient of the Millennium Business award for Environmental Achievement presented by the United Nations Environmental Programme and the International Chamber of Commerce in May 2000.

All of Interfor's harvesting plans are subject to review by the relevant Federal and Provincial Government Ministries. Plans must be approved by Government authority before any activities can proceed. Specific harvest or silvicultural plans may also be advertised inviting public comment and input.

Interfor is a leader in using environmentally sound helicopter logging techniques, annually logging up to one-third of its total harvest with helicopters. While helicopter logging can be more expensive than conventional logging techniques, it reduces the impact on the environment by eliminating the need for extensive logging roads and providing access to timber that would otherwise be inaccessible using conventional logging techniques. Interfor owns and operates one of the largest helicopter logging operations in Canada.

Over the past few years Interfor has successfully introduced new variable retention harvesting methods throughout portions of its operations. This method in which part of the forest is left standing (either in groups of trees or dispersed individual trees) is an alternative to clear cut logging. During 2001, Interfor applied variable retention methods to approximately 50 % of its areas harvested.

### **Manufacturing**

During 2001, three of Interfor's sawmills applied for and were granted certification to the ISO 14001 environmental standard.



Interfor maintains an Environmental Management System (EMS) for all of its manufacturing facilities. The Company's EMS includes such items as environmental audits, regular monitoring, emergency response, personnel training and compliance tracking.

The Company has retained an independent environmental consulting firm, Envirochem Consultants Ltd., to help ensure appropriate environmental standards are attained at the manufacturing sites. Ongoing independent audits provide a scoring system to rate relative environmental performance for each operation and to guide continual improvement.

In addition, Interfor's manufacturing facilities have obtained a Chain of Custody Certificate for its system that tracks certified logs through the manufacturing process.

### **RESEARCH AND DEVELOPMENT**

The Company contributes to and participates in industry research organizations that have made numerous technical developments beneficial to the Company in areas such as sawing technology, drying techniques, and anti-sapstain applications. Interfor also is committed to applied research and development in the areas of health and safety, forest management and product and market development.

## **SHARE CAPITAL**

The authorized share capital of the Company consists of 100,000,000 class “A” Subordinate Voting shares without par value (“Subordinate Voting Shares”), 1,700,000 class “B” Multiple Voting shares without par value (“Multiple Voting Shares”) and 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof. The Subordinate Voting Shares and Multiple Voting Shares are referred to as “Equity Shares”.

### **Subordinate Voting Shares**

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Subordinate Voting Shares and Multiple Voting Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board of Directors and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board of Directors except in certain circumstances where the holders of Preference shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference shares.

### **Multiple Voting Shares**

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board of Directors except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two directors to be elected by the holders of Preference shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.



### **Rights on Take-Over Bids and Conversion of Multiple Voting Shares**

Any transfer of a Multiple Voting Share:

- (a) by any of W.L. Sauder, members of his immediate family, their descendants and holding companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Convertible Preference Shares, and Multiple Voting Shares at an equivalent price; or
- (b) by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the share into a Subordinate Voting Share.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

- (a) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or
- (b) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own Equity Shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding Equity Shares, or (ii) the issue of Equity Shares by way of a stock dividend other than an ordinary course stock dividend.

### **Preference Shares**

The Preference shares of each series rank on a parity with the Preference shares of every other series, and are entitled to preference over the Subordinate Voting Shares and the Multiple Voting Shares and over any other shares ranking junior to the Preference shares, with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

### **STOCK EXCHANGE LISTING**

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A.

### **DIVIDENDS**

The Company previously had a policy, subject to availability of earnings, of paying stock dividends in order to maintain its Equity Shares as eligible investments for pension plans and various other regulated investments as required under former legislation. This policy was discontinued following the change in eligibility requirements. The last stock dividend was issued in May 1991. Under its credit facilities, the Company may pay cash dividends and certain other payments provided that it meets its banking covenants.

## **ADDITIONAL INFORMATION**

The Company will provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of securities of the Company,
  - (i) one copy of this Annual Information Form together with one copy of any document, or the pertinent pages from any document, incorporated by reference in this Annual Information Form;
  - (ii) one copy of the audited consolidated financial statements of the Company for the years ended December 31, 2001 and 2000 together with the accompanying report of the auditors thereon, and one copy of any interim financial statements of the Company subsequent to such financial statements;
  - (iii) one copy of the Information Circular of the Company dated as of March 1, 2002; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus other than those referred to above; or
- (b) at any other time, one copy of any of the documents referred to in (a), (i), (ii) and (iii) above provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of the Company.

Additional information relating to the Company is contained in the Information Circular of the Company dated as of March 1, 2002 and additional financial information relating to the Company is contained in the audited consolidated financial statements of the Company for the years ended December 31, 2001 and 2000.

## **MANAGEMENT DISCUSSION AND ANALYSIS and SELECTED FINANCIAL INFORMATION**

Please refer to Management Discussion and Analysis on page 9 for the year ended December 31, 2001, which is incorporated here by reference.

## **DIRECTORS AND EXECUTIVE OFFICERS**

As of March 1, 2002, the executive officers and directors of the Company (19 persons) beneficially owned or exercised control over 4.5% of the Subordinate Voting Shares and 99.6% of the Multiple Voting Shares.

The term of office for each director expires on the date of the next annual general meeting on April 19, 2002.

<b><u>Directors</u></b>	<b><u>Principal Occupations in the Past Five Years</u></b>	<b><u>Director Since</u></b>	<b><u>Municipality of Residence</u></b>
<b>LAWRENCE I. BELL</b> (b)(c)	Chairman and Chief Executive Officer of B.C. Hydro and Power Authority (Electricity generation and distribution); previously Vice Chair and President and Chief Executive Officer of Shato Holding Ltd (Food processing and services; real estate management and development)	Apr. 29, 1998	West Vancouver, B.C.
<b>DUNCAN K. DAVIES</b> (e)	President and Chief Executive Officer of the Company; previously President and Chief Operating Officer, Executive Vice President and Chief Operating Officer of the Company; Business Consultant to the Company; Vice President Corporate Development of Pacific Forest Products Limited (Forest products)	Nov. 24, 1998	Vancouver, B.C.



<u>Directors</u>	<u>Principal Occupations in the Past Five Years</u>	<u>Director Since</u>	<u>Municipality of Residence</u>
<b>IAIN J. HARRIS</b> (a)(c)	Chairman and Chief Executive Officer of Summit Holdings Ltd. (Investment and holdings); previously President and CEO of Air BC Limited (Regional airline)	Apr. 29, 1998	Vancouver, B.C.
<b>ROBERT E. KADLEC</b> (b)(d)(e)	Chairman & C.E.O. of Bentley Capital Corp. (Venture capital); previously President and Chief Executive Officer of BC Gas Inc. (Energy holding company)	Oct. 18, 1994	West Vancouver, B.C.
<b>HAROLD C. KALKE</b> (a)(b)	President of Kalico Developments Ltd. (Real estate development and management)	July 18, 2000	West Vancouver, BC
<b>CLAUDE C. LAVAL, III</b> (a)(d)	President of Claude Laval Corporation (Manufacturer of filtration equipment)	Apr. 28, 1994	Fresno, Calif., U.S.A.
<b>RICHARD N. MCKERRACHER</b> (d)	Senior Vice President and previously Vice President, Finance of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 29, 1998	North Vancouver, B.C.
<b>GEORGE L. MALPASS</b> (e)	Vice Chairman of the Company; previously President and Chief Executive Officer of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C.
<b>JOHN A. MILROY</b> (a)(d)	Business Consultant	Mar. 23, 1978	Vancouver, B.C.
<b>E. LAWRENCE SAUDER</b> (c)(e)	President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 18, 1984	Vancouver, B.C.
<b>WILLIAM L. SAUDER</b> (c)(e)	Chairman of the Company; previously Chairman and Chief Executive Officer of the Company	Jul. 27, 1977	Vancouver, B.C.
<b>JOSEPH SEGAL</b>	President of Kingswood Capital Corporation (Venture capital)	Feb. 2, 1987	Vancouver, B.C.
<b>JOHN P. SULLIVAN</b> (d)	Vice President of the Company; previously Vice President Corporate Development of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C.

(a) Member of the Audit Committee

(b) Member of the Corporate Governance Committee

(c) Member of the Management Resources and Compensation Committee

(d) Member of the Environment and Safety Committee

(e) Member of the Executive Committee

<b><u>Executive Officers</u></b>	<b><u>Principal Occupations in the Past Five Years</u></b>	<b><u>Municipality of Residence</u></b>
<b>WILLIAM L. SAUDER</b>	Chairman of the Company; previously Chairman and Chief Executive Officer of the Company	Vancouver, B.C.
<b>DUNCAN K. DAVIES</b>	President and Chief Executive Officer of the Company; previously President and Chief Operating Officer; Executive Vice President and Chief Operating Officer of the Company; Business Consultant to the Company; Vice President Corporate Development of Pacific Forest Products Limited (Forest products)	Vancouver, B.C.
<b>GEORGE L. MALPASS (e)</b>	Vice Chairman of the Company; previously President and Chief Executive Officer of Primex Forest Products Ltd. (Forest products)	Vancouver, B.C.
<b>HUGH J. SUTCLIFFE</b>	Senior Vice President, Operations; previously Senior Vice President, Coast Operations and Vice President, Coast Forestry and Logging of the Company; Vice President, Woodlands and Chief Forester of Pacific Forest Products Limited, (Forest products)	Vancouver, BC
<b>JAMES A. BELSHEIM</b>	Vice President, Structural Whitewood; previously Vice President, Interior Operations and General Manager of the Company's Adams Lake and Squamish operations	West Vancouver, B.C.
<b>JACK E. DRAPER</b>	Vice President, Cedar; previously General Manager, Cedar	Surrey, B.C.
<b>JOHN A. HORNING</b>	Vice President Finance and Corporate Development; previously Vice President of the Company, Business Consultant to the Company; President and C.E.O. of Pacific Coach Lines Ltd. (Transportation)	West Vancouver, B.C.
<b>OTTO F. SCHULTE</b>	Vice President, Coastal Woodlands; previously General Manager, Campbell River Operations of the Company; Manager Gold River Forest Operations of Western Forest Products Limited (Forest products); Woodlands Manager Gold River Woodlands, Pacific Forest Products Limited (Forest products)	Black Creek, B.C.
<b>JOHN P. SULLIVAN</b>	Vice President of the Company; previously Vice President Corporate Development of Primex Forest Products Ltd. (Forest products)	Vancouver, B.C.
<b>GERALD J. FRIESEN</b>	Vice President and Corporate Secretary; previously Corporate Secretary; of the Company	Coquitlam, B.C.



★ TERRACE

■ SCOTIA RIVER

■ KUMEALON

■ SURF INLET/CEDAR CREEK/DAM CREEK

■ CHAPPLE INLET

COUSINS INLET. ■

JENNY INLET ■

■ BELLA COOLA

QUATLENA ■

■ TALEOMEY R./NOEICK

MOSES INLET ■

HARDY INLET ■

WALBRAN ■

HOY POINT

SECURITY BAY ■

■ BURNT ISLAND

■ MEREWORTH

WARNER BAY ■

CHIEF NOLLIS

PORT HARDY ★

■ ACTEON SOUND

WAKEMANN SOUND ■

KNIGHT INLET

LANE BAY ■

KINGCOME INLET

MOUNT CONNOLLY ■

THOMPSON SOUND

■ GILFORD IS.

■ HOMATHKO

■ LULL BAY

■ PROMINENT POINT

■ KASHUTL

■ CHAMISS BAY

■ CACHALOT

BUTTERFLY BAY ■

BEAR LAKE ■

ELK BAY ■

■ FANNY BAY

■ ORFORD

■ ALPHA

■ FREDERICK ARM

■ BREM

■ QUATAM

RAZA ISLAND

CAMPBELL RIVER ★

■ MOOYAH BAY

■ STEWARTSON

■ CATFACE

FIELD ●

NELSON ISLAND ■

■ HUNAECHEIN CREEK.

■ STAKAWUS

■ VANCOUVER BAY

■ NARROWS INLET

■ CLOWHOM

JACKSON ■

SECHLT ★

■ EFFINGHAM

■ HANDY CR.

■ UCLUELET ★

■ HUNAECHEIN CREEK.

■ GATES LAKE

■ PEMBERTON

■ ROGERS CREEK

■ GOWAN CREEK

■ EMPIRE

■ SQUAMISH LUMBER

★ SQUAMISH

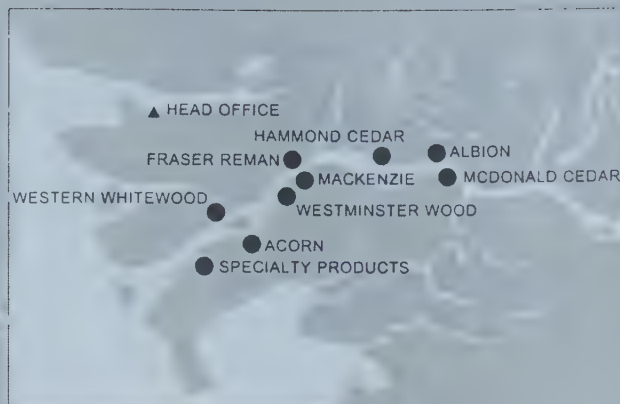
■ MAMQUAM

■ SILVER RIVER

▲ VANCOUVER

SALT AIR ●

★ HOPE



2001

**INTERFOR**

INTERNATIONAL FOREST PRODUCTS LIMITED

■ LOGGING CAMPS / OPERATIONS    ● MANUFACTURING PLANTS

★ WOODLANDS OFFICES    ▲ HEAD OFFICE



## International Forest Products Limited

### ENVIRONMENT AND SAFETY REPORT FOR 2001

#### ENVIRONMENT

##### ENVIRONMENT POLICY

International Forest Products Limited is committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

Re-endorsed by the Board of Directors on July 17, 2001

#### WOODLANDS

Interfor is at the forefront of environmental certification work in British Columbia.

***Certified Sustainable - All of Interfor's forest operations have been  
independently certified to internationally recognized standards.***

**ISO 14001 - International Organization for Standardization**  
Coastal Woodlands certified December 1999  
Interior Woodlands certified June 2000



**SFI<sup>SM</sup> - Sustainable Forestry Initiative**  
Coastal Woodlands certified January 2001  
Interior Woodlands certified June 2001



The company maintains an Environmental Management System including a Sustainable Forest Management program that is monitored and reviewed for continual improvement. KPMG Quality Registrar Inc. conducts regular independent third party audits to assess and verify performance. The ISO 14001 certificate is valid for 3 years from date of issue. The SFI certificate is valid 3 years from date of initial issue and 5 years thereafter. In 2001, the company successfully completed a periodic assessment review of its woodlands operations for both the ISO 14001 and SFI certifications.

Interfor's forestry activities are guided by a Sustainable Forest Management Plan (SFMP). The key objectives of Interfor's SFMP are:

- Employees operate in a safe and environmentally responsible manner.
- Forest plans are developed in consultation with the public.
- Activities incorporate conservation management for water, soil, wildlife and other ecological values.
- Forest landscapes provide for biodiversity and old growth values.
- Harvest rates that ensure long term sustainability.
- Viable operations that benefits society.
- Activities respect all laws and tenure responsibilities.

In January 2001, Interfor became the first BC forest company operating on publicly owned land to receive environmental certification to the American Forest & Paper Association's Sustainable Forestry Initiative (SFI<sup>SM</sup>) standard. Interfor's SFI program contains a set of 35 indicators, which provide a practical means for monitoring and assessing implementation of the SFMP. In Europe, acceptance of Interfor's sustainable forest management program and chain of custody procedures has been granted by the Dutch Keurhout Foundation for products entering the Netherlands.

The company has retained two scientific advisors, Dr. Hamish Kimmins – Coast and Dr. John Innes – Interior, to provide assistance in the development of the sustainable forestry program. In addition, the company has formed a public stakeholder group representing different communities on the coast to assist in the audit process and to provide public feedback on performance.

Interfor continues to be engaged in a variety of environmental initiatives related to its forestry practices. During 2001, the company provided resources to help support the development of the Forest Stewardship Council (FSC) work in BC. In addition, the company through funding from Forest Renewal BC administered numerous environmental projects involving road stabilization, stream restoration and wildlife studies.

Interfor's sustainable forest management practices are guided by a team of qualified professional foresters, technicians and a dedicated workforce. The company is a leader in the development of innovative and environmentally sensitive harvesting practices with a proven ability to meet and exceed the strict legal requirements governing forestry on public land in British Columbia.

Interfor manages forests for timber production while integrating conservation values to ensure protection of water quality, fisheries, wildlife and biodiversity. Harvesting plans are based on ecological conditions and approved by public agencies. The company introduced variable retention harvesting as an alternative to clearcutting as a method for logging. In 2001, the company's variable retention logging methods were applied to approximately 50 percent of its harvesting area.

## **MANUFACTURING**

Interfor maintains an Environmental Management System (EMS) for all of its manufacturing facilities. Each business unit is responsible for compliance and ensuring the EMS is functioning well.

The company has retained the services of Envirochem Consultants Ltd. to help administer and maintain the performance of its EMS.

The services provided by Envirochem include:

- Environmental reviews and audits
- Environmental and stormwater monitoring
- Environmental engineering design
- Toxicity and laboratory studies
- Contaminated site investigation and remediation
- Risk assessment and management
- Government liaison where required

Environmental audits are conducted at the mill sites on a quarterly basis. Envirochem uses a rating system (1-5) to score environmental performance of various indicators at each functioning mill site. A scoring of 1 represents



significant risk, whereas, the top score of 5 indicates good management practices. The overall scores for each mill is listed in the table below.

	<b>Audit Score (Scale of 1 to 5)</b>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Adams Lake	4.2	4.3	4.4	4.5	4.6
Albion	4.6	4.6	4.7	4.8	4.8
Fraser Mills	4.0	4.3	4.4	4.4	4.5
Hammond Cedar	4.2	4.4	4.4	4.4	4.5
McDonald Cedar	4.1	4.1	4.3	4.7	4.8
MacKenzie Seizai	4.3	4.4	4.4	4.5	4.6
Squamish	4.2	4.3	N/A *	4.3	4.4
Western Whitewood	4.3	4.5	4.5	4.6	4.7
Westminster Wood	4.5	4.4	4.4	4.5	N/A *
Acorn				4.4	4.4
Field				4.1	4.3
Saltair Timber				3.0	3.3
Specialty Products				<u>4.6</u>	<u>4.6</u>
Average	<b>4.3</b>	<b>4.4</b>	<b>4.4</b>	<b>4.5</b>	<b>4.5</b>

\* Operations were inactive for an extended period during the year.

An overall score of 4.5 for all the mill sites indicates a very high rating of environmental performance.

In addition to audit scores, the following indicators of environmental management are addressed:

#### **Surface Run-off Measurements**

Sampling for antisapstain chemicals and bioassay from surface run-off water.

#### **Environmental Training**

On-site spill training and refresher courses for transportation of dangerous goods.

#### **Regulatory Compliance**

Monitoring of spill incidents and other environmental regulations

#### **High Priority Recommendations**

A listing of priority items to guide continual improvement of environmental performance.

***During 2001, Interfor obtained the following environmental  
certification achievements for manufacturing.***

**ISO 14001 - International Organization for Standardization**  
Squamish Lumber Division  
Adams Lake Lumber Division  
Hammond Cedar Division



The registration to ISO14001 for Environmental Management Systems obtained from KPMG Quality Registrar Inc. is valid for a three-year period from date of issue.

**Chain-of-Custody - Certification to both**  
FSC Standards and  
Generic Certification Standards

The tracking of the certified logs through the manufacturing process is referred to as chain-of-custody (CoC). In May 2001, Interfor's manufacturing facilities were independently certified by Scientific Certification Systems to meet CoC requirements under their forest conservation program.

## HEALTH AND SAFETY

### HEALTH AND SAFETY POLICY

Health and Safety is the uncompromised right and responsibility of all employees.

- We will monitor and report regularly on our Health and Safety performance.
- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations

International Forest Products Limited is committed to the health, safety, and well being of all employees.

Re-endorsed by the Board of Directors on July 17, 2001

### SAFETY PERFORMANCE IMPROVES

Interfor has come a long way in the area of safety performance since 1998, when the Company determined that its health and safety record was in need of significant improvement. Since then, Interfor's Medical Incident Rate (MIR) -- the measure by which industry performance is measured -- has been reduced by approximately 70%. Last year, the Coastal Woodlands group significantly surpassed their MIR target and positioned themselves among the top safety performers in the sector, as reported by the Forest Industry Advisory Service (FIAS). Interfor's Manufacturing group failed to meet its overall target, recording an MIR of 7.8. However, excluding the former Primex Forest Products facilities, acquired in May, the Manufacturing group's MIR would have been just slightly above target at 5.2, which represents an improvement over 2000. With the former Primex mills now integrated into Interfor's safety program, the Manufacturing group will target for greater MIR improvement in 2002.

The target for both Coastal Woodlands and Manufacturing was to reduce the 2000 M.I.R. by one-quarter for 2001. Results for the period 1997 to 2001 are as follows:

Medical Incident Rates	Coastal Woodlands	Manufacturing	Total Interfor
1997	35.8	16.4	22.8
1998	32.9	17.9	23.4
1999	14.2	10.2	11.7
2000	13.2	5.9	8.6
2001 – actual	6.2	7.8	7.2
-- target	Less than 10.0	Less than 4.5	Less than 6.5

For the second consecutive year, Interfor's Squamish Lumber Division was honoured by the Canadian Society of Safety Engineering Award for the top Health and Safety Awareness Program in Canada during North American Occupational Safety and Health (NAOSH) week. As well, Squamish Lumber received a NAOSH award for the most innovative provincial program.

The Company will continue to build on its safety performance in 2002 and has set the following targets:

	<b>Medical Incident Rates</b>		
	<b>Coastal Woodlands</b>	<b>Manufacturing</b>	<b>Total Interfor</b>
<b>2002- target</b>	Less than 5.0	Less than 6.2	Less than 5.8

### **GOING FORWARD**

During 2002, Interfor intends to:

- Continue to improve its safety record.
- Develop a risk assessment program for daily work procedures in the woodlands.
- Continue to refine and develop safety programs.
- Continue to consider safety as a prerequisite for employment.

These efforts are designed to make all Interfor operations safe and healthy places to work.



## GLOSSARY

**“Allowable Annual cut (AAC)”** The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

**“Cash flow from operations”** Cash generated from operations before considering changes in operating working capital.

**“Clear fibre”** Refers to knot and defect-free fibre found in higher-grade sawlogs; in lumber from, this fibre commands a premium price.

**“Custom cutting”** An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

**“EBITDA”** Earnings before interest, income taxes, depreciation, depletion, amortization, restructuring costs and capital asset write-downs.

**“Forest Licence”** Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

**“Hectare”** A metric unit of area measurement, equal to 2.47 acres.

**“m”** A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

**“Mfbm”** One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

**“Pre-tax return on total assets”** Earnings (loss) before taxes divided by closing total assets.

**“Return on average invested capital”** Net earnings (loss) plus after tax interest cost divided by the average of opening and closing invested capital (bank indebtedness plus long-term debt plus shareholders' equity).

**“Return on average shareholders' equity”** Net earning (loss) divided by the average of opening and closing shareholders' equity.

**“Roaded timber”** Forest areas designated for future harvesting to which access roads have been constructed.

**“Silviculture”** The art and science of controlling the establishment, growth, composition, health and quality of forests.

**“Stumpage”** A charge assessed by the provincial government on all Crown timber harvested.

**“Sustained yield (sustainable log supply)”** The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

**“Timber Licence”** Non-replaceable, area based, Crown timber cutting rights.

**“Tree Farm Licence”** A renewable 25-year licence to manage forest area to yield an annual harvest on a sustainable basis.

**“Value-added product”** A commodity or other product that has been further processed to increase financial value.

**“Volumetric unit”** A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet.

**“Whitewood”** Includes the Coastal species Hemlock, Balsam Fir, Douglas Fir and Spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.



## **HEAD OFFICE AND REGISTERED OFFICE**

P.O. Box 49114, Bentall Centre  
Suite 3500, Bentall Tower Four  
1055 Dunsmuir Street  
Vancouver, BC V7X 1H7  
(604) 689-6800

### **OFFICERS**

**W.L. Sauder**  
Chairman

**G.L. Malpass**  
Vice Chairman

**D.K. Davies**  
President and Chief Executive Officer

**H.J. Sutcliffe**  
Senior Vice President, Operations

**J.A. Belsheim**  
Vice President, Structural Whitewood

**J.E. Draper**  
Vice President, Cedar

**G.J. Friesen**  
Vice President and Corporate Secretary

**J.A. Horning**  
Vice President  
Finance & Corporate Development

**Otto Schulte**  
Vice President, Coastal Woodlands

**Shaun Sullivan**  
Vice President

**L.D. Cocke**  
Corporate Controller

### **AUDITORS**

KPMG LLP Vancouver, BC

### **TRANSFER AGENT**

Computer Share Trust Company of Canada  
Vancouver, BC and Toronto, ON

### **STOCK EXCHANGE**

Class "A" shares listed on  
The Toronto Stock Exchange  
as "IFP.A"

## **DIRECTORS**

**L.I. Bell**  
West Vancouver, BC

**D.K. Davies**  
Vancouver, BC

**I.J. Harris**  
Vancouver, BC

**R.E. Kadlec**  
West Vancouver, BC

**H.C. Kalke**  
West Vancouver, BC

**C.C. Laval III**  
Fresno, California, USA

**R.N. McKerracher**  
North Vancouver, BC

**G.L. Malpass**  
Vancouver, BC

**J.A. Milroy**  
Vancouver, BC

**E.L. Sauder**  
Vancouver, BC

**W.L. Sauder**  
Vancouver, BC

**J. Segal**  
Vancouver, BC

**J.P. Sullivan**  
Vancouver, BC

## **COASTAL WOODLANDS**

311 - 1180 Ironwood Road  
Campbell River, BC V9W 5P7  
(250) 286-5000

## **WOODLANDS OFFICES**

Campbell River: (250) 286-1881  
Hope: (604) 869-7111  
Port Hardy: (250) 949-2900  
Sechelt: (604) 740-8220  
Squamish: (604) 892-2500  
Terrace: (250) 635-0635  
Ucluelet: (250) 726-7748

## **HELIFOR INDUSTRIES LIMITED**

828- 1200 West 73<sup>rd</sup> Avenue  
Vancouver, BC V6P 6G5  
(604) 269-2000

## **SAWMILLS**

**Acorn Forest Products**  
(604) 581-0494  
9355 Alaska Way, Delta, BC V4C 4R7

**Adams Lake Lumber**  
(250) 679-3234  
R.R. 2, Chase, BC V0E 1M0

**Field Sawmills Limited Partnership**  
(250) 338-5414  
1901 Comox Rd, Courtenay, BC V9N 3P7

**Hammond Cedar**  
(604) 465-5401  
20580 Maple Crescent, Maple Ridge, BC V2X 1B1

**MacKenzie Seizai**  
(604) 580-4500  
11732- 130<sup>th</sup> Street, Surrey, BC V3R 2Y3

**Squamish Lumber**  
(604) 892-2500  
P.O. Box 280, 1500 Hwy 99, Squamish, BC V0N 3G0

**Western Whitewood**  
(604) 525-9411  
501 Boyd Street, New Westminster, BC V3M 5H6

## **REMAN OPERATIONS**

**Albion Process Centre**  
(604) 463-4234

**Fraser Reman**  
(604) 520-8400

**McDonald Cedar**  
(604) 882-2800

**Saltair Timber Products Ltd.**  
(250) 416-0590

**Specialty Products Division**  
(604) 583-3665

**Westminster Wood Products Ltd**  
(604) 580-4500

## **SALES AND MARKETING**

**Adams Lake**  
(250) 679-6822 (Chase)  
(604) 587-4555 (Delta)

**Cedar Group**  
(604) 465-2231

**Industrial Whitewood Group**  
(604) 580-4550

**Structural Whitewood Group**  
(604) 587-4555 (Delta)  
011-81-3-3215-2421 (Tokyo)

